

**Stockland Direct Office Trust No. 3  
and its controlled entities  
and Stockland Holding Trust No. 2**

Comprising the stapled units:

Stockland Direct Office Trust No. 3 (ARSN: 124 439 925)

Stockland Holding Trust No. 2 (ARSN: 132 129 134)

**Interim Financial Reports  
for the half year ended  
31 December 2008**

Registered office:

133 Castlereagh Street  
Sydney NSW 2000

# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Contents**

Directors' Report	2
Lead Auditor's Independence Declaration	4
Interim Income Statements	5
Interim Balance Sheets	6
Interim Statements of Changes in Equity	7
Interim Cash Flow Statements	9
Notes to the Consolidated Interim Financial Statements	
1. Summary of significant accounting policies	10
2. Accounting estimates and assumptions	11
3. Segment reporting	11
4. Non-current assets – Investment properties	12
5. Non-current assets – Other assets	13
6. Current liabilities – Other liabilities	13
7. Non-current liabilities – Interest-bearing loans and borrowings	14
8. Non-current liabilities – Other liabilities	14
9. Issued capital	15
10. Reserves	16
11. Distributions to Unitholders	16
12. Related parties	17
13. Commitments	20
14. Other information	20
15. Contingent liabilities and contingent assets	20
16. Events subsequent to the end of the half year	20
Directors' Declaration	21
Independent Review Report	22

# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Directors' Report**

### **For the half year ended 31 December 2008**

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No. 2 ("SHT2"), present their joint reports together with the consolidated interim Financial Reports for the half year ended 31 December 2008 and the Independent Auditor's Review Report thereon. The consolidated interim Financial Reports comprises the Financial Report of the Trust and its controlled entities including SHT2 which together form the stapled entity ("stapled entity"), together with the interim Financial Report for SHT2.

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

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

#### **Stapled Entity Information**

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

On 18 August 2008, units in SHT2 were issued to investors holding units in the Trust ("Unitholders") and stapled to the units in the Trust ("Stapling Arrangement"). SDOT3 and SHT2 units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other (collectively known as the "Stapled Units"). This was disclosed in the Product Disclosure Statement ("PDS") issued to Unitholders on 12 August 2008.

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

Financial Statements for the stapled entity and SHT2 for the half year ended 31 December 2008 have been presented in this report in adjacent columns as permitted by ASIC Class Order 06/441.

#### **Consolidated Entity Information**

The consolidated entity refers to the previous group structure prior to the Stapling Arrangement, i.e. the Trust and its controlled entities excluding SHT2 ("consolidated entity"). Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust and did not form part of the consolidated entity's results.

#### **SHT2 Entity Information**

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



# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Directors' Report**

**For the half year ended 31 December 2008**

### **Directors**

The Directors of the Responsible Entity of both the Trust and SHT2 at any time during or since the end of the half year ("the Directors") are:

<b>Name</b>	<b>Date of appointment/retirement</b>
<b><i>Non-Executive Directors</i></b>	
Mr Peter Scott, Chairman	Appointed 22 November 2005
Mr David Kent	Appointed 9 August 2004
Mr Anthony Sherlock	Appointed 9 August 2004
Mr Terry Williamson	Appointed 2 July 2004, retired 23 October 2007 <sup>1</sup>
<b><i>Executive Director</i></b>	
Mr Matthew Quinn	Appointed 19 October 2000
Mr Hugh Thorburn (alternate Director for Mr Quinn)	Appointed 25 October 2007

<sup>1</sup> Mr T Williamson remains chair of the Stockland Capital Partners Limited Audit and Risk Committee.

### **Principal activities**

The principal activity of the stapled 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.

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

### **Review and results of operations**

The stapled entity recorded a loss from operating activities of \$4,464,000 for the half year ended 31 December 2008 (consolidated: profit of \$7,455,000 for the half year ended 31 December 2007). The Directors will continue to monitor the performance of the stapled entity in light of the current market conditions.

SHT2 recorded a loss from operating activities of \$2,209,000 for the half year ended 31 December 2008 (profit of \$654,000 for the half year ended 31 December 2007).

For the half year ended 31 December 2008, the stapled entity recorded in reserves, a fair value decrement of \$9,494,000 in relation to the effective portion of the valuation of the interest rate swap as set out in Note 10 of the interim Financial Reports. The ineffective portion of the fair value movement of the interest rate swap of \$222,000 has been recorded as an unrealised loss in the stapled entity's Income Statement. As at 31 December 2008, the fair value of the interest rate swap was \$6,391,000 liability (June 2008: \$3,325,000 asset) as set out in Note 5 and 8 of the interim Financial Reports.

Distributions paid or declared by the stapled entity and SHT2 to Unitholders during the half year ended 31 December 2008 are set out in Note 11 of the Financial Statements.

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

The external auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half year ended 31 December 2008.

### **Rounding**

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn  
Director

Dated at Sydney, 19 February 2009



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

To: the directors of the Responsible Entity of Stockland Direct Office Trust No. 3 and Stockland Holding Trust No. 2, Stockland Capital Partners Limited.

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Scott Fleming  
Partner

Sydney

19 February 2009

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

**Interim Income Statements**

**For the half year ended 31 December 2008**

		Stapled entity 1 Jul 2008 - 31 Dec 2008	Consolidated 1 Jul 2007 - 31 Dec 2007	SHT2 1 Jul 2008 - 31 Dec 2008 <sup>1</sup>	SHT2 1 Jul 2007 - 31 Dec 2007 <sup>1</sup>
	Notes	\$'000	\$'000	\$'000	\$'000
<b>Revenue and other income</b>					
Rent from investment properties		7,026	5,908	1,575	-
Net gain from fair value adjustment of investment properties <sup>2</sup>		-	6,323	-	-
Interest income		72	234	332	654
<b>Total revenue and other income</b>		<b>7,098</b>	<b>12,465</b>	<b>1,907</b>	<b>654</b>
<b>Investment property expenses</b>		<b>(1,631)</b>	<b>(1,728)</b>	<b>(386)</b>	<b>-</b>
Finance costs relating to interest-bearing liabilities at amortised cost		(2,373)	(1,783)	-	-
Finance costs to related parties at amortised cost		(332)	(654)	(1,062)	-
Unwinding of discount on deferred consideration		-	(392)	-	-
Net loss from fair value adjustment of investment properties	4	(6,472)	-	(2,550)	-
Responsible Entity fees	12	(325)	(326)	(64)	-
Unrealised loss on cash flow hedge		(222)	-	-	-
Other expenses		(207)	(127)	(54)	-
<b>Total expenses</b>		<b>(11,562)</b>	<b>(5,010)</b>	<b>(4,116)</b>	<b>-</b>
<b>(Loss)/profit from operating activities</b>		<b>(4,464)</b>	<b>7,455</b>	<b>(2,209)</b>	<b>654</b>
<b>(Loss)/profit from operating activities attributable to:</b>					
Unitholders of the Trust (parent entity)		(1,923)	7,455	-	-
Unitholders of SHT2 (as minority interest)		(2,541)	-	-	-
Unitholders of SHT2		-	-	(2,541)	-
Stockland Trust <sup>1</sup>		-	-	332	654
		<b>(4,464)</b>	<b>7,455</b>	<b>(2,209)</b>	<b>654</b>

<sup>1</sup> Up until the date of the Stapling Arrangement of 18 August 2008, SHT2 was a controlled entity of Stockland Trust.

<sup>2</sup> In the previous half-year, the consolidated entity 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 in the prior period.

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



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Interim Balance Sheets**  
**As at 31 December 2008**

		Stapled entity 31 Dec 2008 \$'000	Consolidated 30 June 2008 \$'000	SHT2 31 Dec 2008 <sup>1</sup> \$'000	SHT2 30 June 2008 <sup>1</sup> \$'000
	Notes				
<b>Current assets</b>					
Cash and cash equivalents		3,921	7,915	-	-
Trade and other receivables		88	1,153	12	-
Loan to related entities		-	-	3,003	32,032
Receivable from related entity		-	-	-	1,053
Other assets		333	287	40	150
<b>Total current assets</b>		<b>4,342</b>	<b>9,355</b>	<b>3,055</b>	<b>33,235</b>
<b>Non-current assets</b>					
Investment properties	4	126,453	133,293	34,562	-
Trade and other receivables		810	613	406	-
Other assets	5	1,689	4,735	-	-
<b>Total non-current assets</b>		<b>128,952</b>	<b>138,641</b>	<b>34,968</b>	<b>-</b>
<b>Total assets</b>		<b>133,294</b>	<b>147,996</b>	<b>38,023</b>	<b>33,235</b>
<b>Current liabilities</b>					
Trade and other payables		3,428	4,558	461	811
Loan from related entity		-	-	-	23,598
Other liabilities	6	948	33,458	250	1,041
<b>Total current liabilities</b>		<b>4,376</b>	<b>38,016</b>	<b>711</b>	<b>25,450</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	7	83,045	53,887	32,032	-
Other liabilities	8	6,391	-	-	-
<b>Total non-current liabilities</b>		<b>89,436</b>	<b>53,887</b>	<b>32,032</b>	<b>-</b>
<b>Total liabilities</b>		<b>93,812</b>	<b>91,903</b>	<b>32,743</b>	<b>25,450</b>
<b>Net assets</b>		<b>39,482</b>	<b>56,093</b>	<b>5,280</b>	<b>7,785</b>
<b>Unitholders' funds</b>					
Issued capital	9	38,535	49,009	7,821	8,008
Undistributed profit/(loss)		1,836	3,759	(2,541)	(223)
Reserves	10	(6,169)	3,325	-	-
		<b>34,202</b>	<b>56,093</b>	<b>5,280</b>	<b>7,785</b>
Minority interest		5,280	-	-	-
<b>Total Unitholders' funds</b>		<b>39,482</b>	<b>56,093</b>	<b>5,280</b>	<b>7,785</b>

<sup>1</sup> Up until the date of the Stapling Arrangement of 18 August 2008, SHT2 was a controlled entity of Stockland Trust.

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

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Interim Statement of Changes in Equity**  
**For the half year ended 31 December 2008**

Attributable to Unitholders of the stapled/consolidated entity

	Notes	Issued capital		Undistributed profit		Reserves		Minority Interest		Total Stapled Unitholders' Funds	
		31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Stapled entity/consolidated</b>											
<b>Opening balance</b>		49,009	53,794	3,759	(2,423)	3,325	1,615	-	-	56,093	52,986
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(9,494)	1,378	-	-	(9,494)	1,378
<b>Total income and expenses recognised directly in equity for the half year</b>		-	-	-	-	(9,494)	1,378	-	-	(9,494)	1,378
(Loss)/profit for the half year		-	-	(1,923)	7,455	-	-	(2,541)	-	(4,464)	7,455
<b>Total recognised income and expenses for the half year</b>		-	-	(1,923)	7,455	(9,494)	1,378	(2,541)	-	(13,958)	8,833
Return of capital to Unitholders	9	(8,008)	-	-	-	-	-	-	-	(8,008)	-
Deferred establishment costs	9	(65)	-	-	-	-	-	-	-	(65)	-
Distributions paid/payable to Unitholders	11	(2,401)	(2,386)	-	-	-	-	-	-	(2,401)	(2,386)
Units issued by minority interest to Unitholders	9	-	-	-	-	-	-	7,821	-	7,821	-
<b>Closing balance</b>		38,535	51,408	1,836	5,032	(6,169)	2,993	5,280	-	39,482	59,433

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



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Interim Statement of Changes in Equity**  
**For the half year ended 31 December 2008**

Attributable to Unitholders of SHT2 <sup>1</sup>									
	Notes	Issued capital		Undistributed loss		Reserves		Total Unitholders' Funds	
		31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
SHT2		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance</b>		8,008	-	(223)	(223)	-	-	7,785	(223)
Profit for the half year attributable to Stockland Trust <sup>1</sup>		-	-	332	654	-	-	332	654
Loss for the half year attributable to Stapled Unitholders		-	-	(2,541)	-	-	-	(2,541)	-
<b>Total recognised income and expenses for the half year</b>		-	-	(2,209)	654	-	-	(2,209)	654
Return of capital to Stockland Trust	9	(8,008)	-	223	-	-	-	(7,785)	-
Units issued in the half year to Unitholders	9	8,008	-	-	-	-	-	8,008	-
Transaction costs	9	(187)	-	-	-	-	-	(187)	-
Distributions paid/payable to Stockland Trust <sup>1</sup>	11	-	-	(332)	(654)	-	-	(332)	(654)
<b>Closing balance</b>		7,821	-	(2,541)	(223)	-	-	5,280	(223)

<sup>1</sup> Up until the date of the Stapling Arrangement of 18 August 2008, SHT2 was a controlled entity of Stockland Trust.

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

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Interim Cash Flow Statements**  
**For the half year ended 31 December 2008**

		Stapled entity	Consolidated	SHT2	
		1 Jul 2008	1 Jul 2007	1 Jul 2008	1 Jul 2007
		- 31 Dec 2008	- 31 Dec 2007	- 31 Dec 2008	- 31 Dec 2007
	Notes	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		8,115	5,876	2,867	-
Cash payments in the course of operations		(3,981)	(1,280)	(1,194)	-
Interest received		72	234	332	-
Interest paid		(2,663)	(1,728)	(1,062)	-
<b>Net cash inflow from operating activities</b>		<b>1,543</b>	<b>3,102</b>	<b>943</b>	<b>-</b>
<b>Cash flows from investing activities</b>					
Payment for investment properties		(32,086)	(7)	(32,067)	-
<b>Net cash utilised in investing activities</b>		<b>(32,086)</b>	<b>(7)</b>	<b>(32,067)</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Return of capital to Stockland Trust		-	-	(7,785)	-
Proceeds from external party financing		29,160	-	-	-
Borrowing costs paid		(31)	(122)	-	-
Return of capital to Unitholders	9	(8,008)	-	-	-
Proceeds from issue of units to Unitholders	9	8,008	-	8,008	-
Payment of transaction costs	9	(187)	(580)	(187)	-
Distributions paid to Unitholders	11	(2,393)	(1,193)	(332)	-
Receipts on related party loan	6, 12	-	-	32,032	-
Payment on intercompany loans		-	-	(612)	-
<b>Net cash inflow from/(utilised in) financing activities</b>		<b>26,549</b>	<b>(1,895)</b>	<b>31,124</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,994)</b>	<b>1,200</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the half year		7,915	5,393	-	-
<b>Cash and cash equivalents at the end of the half year</b>		<b>3,921</b>	<b>6,593</b>	<b>-</b>	<b>-</b>

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



# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2008**

#### **1 Summary of significant accounting policies**

Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No. 2 ("SHT2") are each Managed Investment Schemes domiciled in Australia. The interim Financial Reports comprise the Financial Report of the Trust and its controlled entities including SHT2 which together form the stapled entity ("stapled entity"), together with the interim Financial Report for SHT2.

The interim Financial Reports as at and for the half years ended 31 December 2008 were authorised for issue by the Directors of the Responsible Entity on 19 February 2009.

##### **(a) Statement of compliance**

The interim Financial Reports are general purpose financial reports which have been prepared in accordance with AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. The interim Financial Reports also comply with the International Financial Reporting Standards ("IFRSs").

The interim Financial Report of the stapled entity does not include all of the information required for a full Annual Financial Report, and should be read in conjunction with the Annual Financial Report of the consolidated entity as at and for the year ended 30 June 2008.

The interim Financial Report of SHT2 does not include all of the information required for a full Annual Financial Report. The first full Annual Financial Report of SHT2 will be prepared for the period ended 30 June 2009.

##### **(b) Basis of preparation**

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

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

The interim Financial Reports have been presented in accordance with ASIC Class Order 06/441 which allows issuers of stapled securities with a common Responsible Entity to include their financial statements and the consolidated financial statements of the stapled group in adjacent columns in one financial report.

##### **(c) Significant accounting policies**

The accounting policies applied by the stapled entity in this interim Financial Report are the same as those applied by the consolidated entity in the Financial Report of the Trust as at and for the year ended 30 June 2008.

The accounting policies applied by SHT2 in the current and comparative period are the same as those applied by the stapled entity.

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



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2008**

**1 Summary of significant accounting policies (continued)**

**(d) Comparatives**

Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust and did not form part of the consolidated entity's results. Hence the prior period comparatives of SHT2 represent the results of SHT2 as a controlled entity of Stockland Trust.

**2 Accounting estimates and assumptions**

The preparation of the interim Financial Statements requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim Financial Statements the significant judgements made by the directors in applying the stapled entity's and SHT2's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Financial Report of the consolidated entity as at and for the year ended 30 June 2008.

**3 Segment reporting**

The Trust and its controlled entities and SHT2 operate solely in the business of investment management in Australia.

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2008**

**4 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	Stapled entity Consolidated		SHT2
							Book value 31 Dec 2008 \$'000	Book value 30 June 2008 \$'000	
							Book value 31 Dec 2008 \$'000	Book value 30 June 2008 \$'000	
40 Cameron Avenue, Belconnen, ACT <sup>1</sup>	Leasehold	27 Jun 2007	34,912	35,025	31 Dec 2008	31,650	31,650	32,500	-
541 St Kilda Road, Melbourne, VIC	Leasehold	27 Jun 2007	30,162	30,169	31 Dec 2008	28,750	28,750	29,800	-
222 Russell Street, Melbourne, VIC	Leasehold	27 Jun 2007	16,879	16,883	31 Dec 2008	15,600	15,600	16,800	-
181 Great Eastern Highway, Belmont, WA	Freehold	27 Jun 2007	13,756	13,770	31 Dec 2008	18,000	18,000	18,750	-
75 George Street, Parramatta, NSW <sup>2</sup>	- <sup>2</sup>	27 Jun 2007	39,328	39,482	31 Dec 2008	35,000	35,000	37,500	-
	Freehold	18 Aug 2008	37,500	39,482	31 Dec 2008	35,000	-	-	35,000
Total Investment Properties (including amounts classified in Trade and other receivables and Other assets)							129,000	135,350	35,000
Less amounts classified as:									
- Trade and other receivables							(810)	(613)	(406)
- Other assets							(1,737)	(1,444)	(32)
Total Investment Properties							126,453	133,293	34,562

<sup>1</sup> The stapled/consolidated entity has a 50% interest as a tenant in common for the Belconnen property.

<sup>2</sup> In June 2007, a put and call option was issued to the Trust by SHT2 over the property and was to be exercised by July 2008. The effect of the put and call option together with the concurrent lease resulted in the property being recognised as an asset of the Trust from 27 June 2007. The put and call option was extended to 19 August 2008 following the agreement of both parties. Instead of exercising the put and call option, an alternative transaction was entered into on 18 August 2008 whereby the units of SHT2 were stapled to the units in the Trust. On 18 August 2008, the date of the Stapling Arrangement, the put and call option lapsed and the property for accounting purposes was transferred to SHT2 with a market value of \$37,500,000. The legal title to the property however, has always remained with SHT2. Therefore subsequent to the Stapling Arrangement, the Parramatta property remains an asset of the stapled entity. Refer to Note 12.



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2008**

	Stapled entity 31 Dec 2008 \$'000	Consolidated 30 June 2008 \$'000	SHT2 31 Dec 2008 \$'000	SHT2 30 June 2008 \$'000
<b>4 Non-current assets – Investment properties (continued)</b>				
<b>Reconciliation – investment properties<sup>1</sup></b>				
<i>Direct investments and controlled entities</i>				
Carrying amount at the beginning of the financial period	133,293	128,165	-	-
Acquisitions <sup>2</sup>	-	-	37,162 <sup>3</sup>	-
Net (loss)/gain on fair value adjustments of investment properties	(6,472)	2,780	(2,550)	-
Expenditure (written-off)/capitalised	(72)	470	(50)	-
Transfer to other assets	(296)	(100)	-	-
Expiration of rental income support	-	1,978	-	-
Carrying amount at the end of the financial period	<b>126,453</b>	<b>133,293</b>	<b>34,562</b>	<b>-</b>

<sup>1</sup> Current period represents movements during the six month period to 31 December 2008. Prior period represents movements during the twelve months to 30 June 2008.

<sup>2</sup> In June 2007, a put and call option was issued to SDOT3 by SHT2 over the Parramatta property and was to be exercised by July 2008. The effect of the put and call option together with the concurrent lease resulted in the property being recognised as an asset of the Trust from 27 June 2007. The put and call option was extended to 19 August 2008 following the agreement of both parties. Instead of exercising the put and call option, an alternative transaction was entered into on 18 August 2008 whereby the units of SHT2 were stapled to the units in the Trust. On 18 August 2008, the date of the Stapling Arrangement, the put and call option lapsed and the property for accounting purposes was transferred to SHT2 with a market value of \$37,500,000. The legal title to the property however, has always remained with SHT2. Therefore subsequent to the Stapling Arrangement, the Parramatta property remains an asset of the stapled entity. Refer to Note 12.

<sup>3</sup> Acquisition was at market value of \$37,500,000 which comprised of \$338,000 of rental income support and straight-lining of rent classified in Trade and Other Receivables and Other Assets.

**5 Non-current assets – Other assets**

Fair value of hedging instrument	-	3,325	-	-
Rental income support	1,599	1,410	-	-
Other	90	-	-	-
	<b>1,689</b>	<b>4,735</b>	<b>-</b>	<b>-</b>

**6 Current liabilities – Other liabilities**

Deferred consideration – Opening	32,032	31,259	-	-
Unwind of discount on deferred consideration	-	773	-	-
Settlement of deferred consideration	(32,032)	-	-	-
Deferred consideration – Closing	-	32,032	-	-
Other liabilities	948	1,426	250	1,041
	<b>948</b>	<b>33,458</b>	<b>250</b>	<b>1,041</b>

During the financial year ended 30 June 2007, the consolidated entity entered into a deed of agreement with SHT2 to acquire the Parramatta property. The deferred consideration relates to an amount that was paid to SHT2 on 18 August 2008 in connection with the deed of agreement (refer to Note 12).



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

**Notes to the Interim Financial Statements**

**For the half year ended 31 December 2008**

	Stapled entity 31 Dec 2008 \$'000	Consolidated 30 June 2008 \$'000	SHT2 31 Dec 2008 \$'000	SHT2 30 June 2008 \$'000
<b>7 Non-current liabilities – Interest-bearing loans and borrowings</b>				
Loan facility with financial institution	83,353	54,193	-	-
Interest-bearing loan with related entity	-	-	32,032	-
Less: attributable transaction costs	(308)	(306)	-	-
Balance Sheet carrying amount at amortised cost	83,045	53,887	32,032	-

**Loan facility**

The Trust has an \$89,010,000 (30 June 2008: \$89,010,000) loan facility agreement, comprising a property facility and capital expenditure facility, with Australia and New Zealand Bank ("ANZ"). As at 31 December 2008, \$83,353,000 (30 June 2008: \$54,193,000) had been drawn on the property facility. The weighted average interest rate on the property facility for the period to 31 December 2008 was 8.19% p.a. (30 June 2008: 8.47% p.a.). This property facility has been hedged through an interest rate swap contract (refer to below paragraphs). Taking into account the interest rate swap in place, the weighted average interest rate on the property facility for the period to 31 December 2008 is 6.04% p.a. (30 June 2008: 6.38% p.a.).

The loan 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 stapled entity.

**Interest-bearing loan with related entity**

On 18 August 2008, the Trust entered into a loan agreement with SHT2 to loan SHT2 \$32,032,000 (30 June 2008: \$Nil) to repay the existing debt owing to Stockland Trust by SHT2 relating to the original purchase of the Parramatta property by SHT2. Interest is payable to the Trust annually in arrears. The weighted average interest rate on the loan for the period to 31 December 2008 was 8.90% p.a. The loan matures on 27 June 2010.

**Interest rate swap contract**

The Responsible Entity, on behalf of the Trust, has entered into an interest rate swap contract with Stockland Trust Management Limited ("STML") to manage cash flow risks associated with the interest rates on the loan facility provided by ANZ that are floating. The interest rate swap allows the Trust to swap the floating rate borrowing into fixed rates.

The interest rate swap on the property facility will incur a fixed cost equal to 6.35% p.a. (30 June 2008: 6.35%) payable quarterly in arrears and will terminate on the earlier of 5.5 years from 31 December 2008 or when the underlying debt becomes due and payable. The interest rate swap has been tested for hedge effectiveness as at 31 December 2008 and as at that date, is deemed to be an effective cash flow hedge. The swap in place covers 106% of the loan facility outstanding and accordingly, the ineffective portion of the cash flow hedge of \$222,000 loss (31 December 2008: \$Nil) has been taken to the stapled entity's Income Statement.

SHT2 has not entered into, nor is party to, any interest rate swap contracts as at and for the half year ended 31 December 2008.

**8 Non-current liabilities – Other liabilities**

Fair value of hedging instrument	6,391	-	-	-
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**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

**Notes to the Interim Financial Statements**

**For the half year ended 31 December 2008**

**9 Issued capital**

	Stapled entity 31 Dec 2008	Consolidated 30 June 2008	Stapled entity 31 Dec 2008	Consolidated 30 June 2008
Stapled entity/consolidated	No. of Stapled Units	No. of units	\$'000	\$'000
Units on issue	60,020,000	60,020,000	38,535	49,009

Date	Details	No. of Units	Issue price	\$'000
<b>Movement in units</b>				
30 June 2007	Consolidated 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	Consolidated balance	60,020,000	-	49,009
	Return of capital to Unitholders for Stapled			
18 August 2008	Units in SHT2 <sup>1</sup>	-	-	(8,008)
30 September 2008	Distribution paid from contributed equity	-	-	(1,200)
31 December 2008	Distribution paid from contributed equity	-	-	(1,201)
31 December 2008	Deferred establishment costs	-	-	(65)
<b>31 December 2008</b>	<b>Closing balance – stapled entity</b>	<b>60,020,000</b>		<b>38,535</b>

<sup>1</sup> Refer to Note 12 for further detail on the capital distribution.

	<b>SHT2</b>			
	31 Dec 2008	30 June 2008	31 Dec 2008	30 June 2008
	No. of Stapled Units	No. of units	\$'000	\$'000
Units on issue	60,020,000	8,008,042	7,821	8,008

Date	Details	No. of Units	Issue price	\$'000
<b>Movement in units</b>				
30 June 2007	Balance	10	-	-
30 June 2008	Units issued to Stockland Trust	8,008,032	\$1.00	8,008
30 June 2008	Balance	8,008,042	-	8,008
18 August 2008	Units redeemed from Stockland Trust <sup>1</sup>	(8,008,032)	\$1.00	(8,008)
18 August 2008	Stapled Units issued <sup>2</sup>	60,020,000	\$0.13	8,008
18 August 2008	Transaction costs	-	-	(187)
<b>31 December</b>	<b>Closing balance</b>	<b>60,020,000</b>		<b>7,821</b>

<sup>1</sup> Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust.

<sup>2</sup> Refer to Note 12 for further detail on the capital distribution.

*Rights and restrictions over units*

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



**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

**Notes to the Interim Financial Statements**

**For the half year ended 31 December 2008**

	<b>Stapled entity</b>	<b>Consolidated</b>	<b>SHT2</b>	
	<b>31 Dec 2008</b>	<b>30 June 2008</b>	<b>31 Dec 2008</b>	<b>30 June 2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>10 Reserves</b>				
Balance at the beginning of the financial period <sup>1</sup>	3,325	1,615	-	-
Effective portion of changes in fair value of cash flow hedges during the financial period	(9,494)	1,710	-	-
Balance at the end of the financial period	<u>(6,169)</u>	<u>3,325</u>	<u>-</u>	<u>-</u>

<sup>1</sup> Current period represents movements during the six month period to 31 December 2008. Prior period represents movements during the twelve months to 30 June 2008.

**11 Distributions to Unitholders**

Distributions to Stapled Unitholders recognised in the half year by the stapled entity are:

**Stapled entity**

<b>Interim</b>	<b>Distribution per Stapled Unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred</b>
<b>31 December 2008</b>				
30 September 2008	2.0000¢	1,200 <sup>1</sup>	31 October 2008	100%
31 December 2008	2.0000¢	1,201 <sup>1</sup>	27 February 2009 <sup>2</sup>	100%
		<u>2,401</u>		

<sup>1</sup> This distribution was/is a distribution from contributed equity.

<sup>2</sup> Proposed payment date.

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

**Consolidated**

<b>Interim</b>	<b>Distribution per Unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred</b>
<b>31 December 2007</b>				
30 September 2007	1.9875¢	1,193 <sup>3</sup>	31 October 2007	100%
31 December 2007	1.9875¢	1,193 <sup>3</sup>	29 February 2008	100%
		<u>2,386</u>		

<sup>3</sup> This distribution was a distribution from contributed equity.

Distributions to Unitholders recognised in the half year by SHT2 are:

**SHT2**

<b>Interim</b>	<b>Distribution per Unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred</b>
<b>31 December 2008</b>				
17 August 2008	4.1458¢	332 <sup>4</sup>	17 August 2008	8%
31 December 2008	-	-	-	-
		<u>332</u>		

<sup>4</sup> This was a distribution to Stockland Trust. Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust.

Distributions to Unitholders recognised in the previous half year by SHT2 are:

**SHT2**

<b>Interim</b>	<b>Distribution per Unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred</b>
<b>31 December 2007</b>				
31 December 2007	\$65,355	654 <sup>5</sup>	25 June 2008	15%
		<u>654</u>		

<sup>5</sup> This was a distribution to Stockland Trust. Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust.



# Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2

## Notes to the Interim Financial Statements

For the half year ended 31 December 2008

### 12 Related parties

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

The Directors of the Responsible Entity and their units held in the stapled entity at 31 December 2008 are as follows:

Director	Number of Stapled Units
Mr David Kent	85,000
Mr Matthew Quinn	10,000
Mr Peter Scott	20,000

	Stapled entity	Consolidated	SHT2	
	1 Jul 08 – 31	1 Jul 07 – 31	1 Jul 08 – 31	1 Jul 07 – 31
	Dec 08	Dec 07	Dec 08	Dec 07
Responsible Entity fees and other transactions	\$'000	\$'000	\$'000	\$'000

#### *Trust establishment fee*

In the financial year ended 30 June 2007, 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 financial year ended 30 June 2007, 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.

#### *Responsible Entity fees*

The Responsible Entity charged responsible entity fees to the stapled entity and SHT2 calculated at 0.45% p.a. of the gross value of the assets of the stapled entity and SHT2 respectively. Responsible Entity fees reported by the stapled entity includes the responsible Entity fees of SHT2 which are paid by and reported separately in SHT2.

As at 31 December 2008, the Responsible Entity has agreed for the stapled entity and SHT2 to defer payment of part of the Responsible Entity fees amounting to \$146,439 (30 June 2008: \$292,938) and \$28,592 (30 June 2008: \$Nil) respectively.

325	326	64	-
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Total deferred and accrued Responsible Entity fees by the stapled entity and SHT2 included in Current liabilities – Trade and other payables as at 31 December 2008 is \$537,957 (June 2008: \$303,356) and \$52,046 (30 June 2008: \$Nil) respectively.

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2008**

**12 Related parties (continued)**

	Stapled entity	Consolidated	SHT2	
	1 Jul 08 – 31	1 Jul 07 – 31	1 Jul 08 – 31	1 Jul 07 – 31
Responsible Entity fees and other transactions (continued)	Dec 08 \$'000	Dec 07 \$'000	Dec 08 \$'000	Dec 07 \$'000
<i>Performance fees</i>				
The Responsible Entity is entitled to a fee calculated as 20.5% of the performance of the Trust and SHT2 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 and SHT2 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 and SHT2 has not provided for a performance fee at 31 December 2008.	-	-	-	-
<b>Total Responsible Entity fees and other transactions</b>	<b>325</b>	<b>326</b>	<b>64</b>	<b>-</b>

**Other related party transactions**

*Limited Liquidity Facility ("LLF")*

ANZ has agreed to acquire up to 1,000,000 Stapled Units in the stapled entity each quarter from investors seeking to realise their Stapled Units. The price for each Stapled 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 commenced 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 Stapled Units that ANZ acquires under the LLF. STML or ANZ may terminate the LLF at any time.

During the half year STML, as Responsible Entity of Stockland Trust, acquired 900,000 Stapled Units (year ended 30 June 2008: nil) in the stapled entity via the LLF.

*Units held by Stockland Trust*

As at 31 December 2008, STML, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,302,000 stapled units (30 June 2008: 6,402,000) in the stapled entity.

*Property Management Fee*

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$211,000 (31 December 2007: \$49,000) and \$87,000 (31 December 2007: \$Nil) was paid/payable to the property manager by the stapled entity and SHT2 respectively during the half year.

*Stockland*

During the half year ended 31 December 2008, SHT2 paid to Stockland Trust \$32,032,000, being the balance of the deferred consideration of 75 George Street, Parramatta, New South Wales.



# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Notes to the Interim Financial Statements For the half year ended 31 December 2008**

### **12 Related parties (continued)**

#### **Other related party transactions (continued)**

##### ***Loan from related entity***

As at 31 December 2008, SHT2 has a loan payable to the Trust of \$32,032,000 (30 June 2008: \$Nil). Interest is payable to the Trust annually in arrears. The weighted average interest rate on the loan for the period to 31 December 2008 was 8.90% p.a. The loan matures on 27 June 2010. Refer to Note 7.

##### ***Acquisition of the Parramatta Property***

During the financial year ended 30 June 2007, the consolidated entity entered into a deed of agreement with SHT2 (then a controlled entity of Stockland Trust) 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 arrangement was to confer on the Trust all benefits, obligations and responsibilities accruing to the owner of the Parramatta property. Both the concurrent lease and put and call option terminated or lapsed by 18 August 2008 and the Parramatta property for accounting purposes was transferred to SHT2 with a market value of \$37,500,000 on 18 August 2008. The legal title to the property however, has always remained with SHT2. The Responsible Entity decided that it was in the best interest of Unitholders to complete the acquisition of the Parramatta property by making a capital distribution to Unitholders and applying that capital distribution on Unitholders' behalf to subscribe for units in SHT2 and stapling those units to the units in the consolidated entity. This stapling arrangement occurred on 18 August 2008. Therefore subsequent to the stapling arrangement, the Parramatta property remains an asset of the stapled entity which comprises the consolidated entity and its controlled entities and SHT2.

Under the put and call deed, the Trust paid to SHT2 a call option fee of \$8.01 million for the purchase of the Parramatta property. This fee was refunded to the Trust in June 2008. On 18 August 2008, the put and call option lapsed, allowing the stapling arrangement to be effected.

The deferred consideration of \$32.03 million relating to the purchase of the Parramatta property was paid to Stockland by SHT2 in August 2008.

The Trust has paid interest of \$332,000 in the half year ended 31 December 2008 to SHT2 on the balance of the deferred consideration (31 December 2007: \$654,000).

Stockland granted a concurrent lease to the consolidated entity until 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.

##### ***Stockland Trust Management Limited***

STML 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 5.5 years from 31 December 2008 or when the underlying debt becomes due and payable (refer to Note 7).



# **Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

## **Notes to the Interim Financial Statements**

**For the half year ended 31 December 2008**

### **13 Commitments**

As at 31 December 2008, the stapled entity and SHT2 have no commitments (30 June 2008: \$Nil).

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

Non-cancellable operating lease commitments receivable:

	<b>Stapled entity</b>	<b>Consolidated</b>	<b>SHT2</b>	
	<b>31 Dec 2008</b>	<b>30 June 2008</b>	<b>31 Dec 2008</b>	<b>30 June 2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Within one year	<b>11,953</b>	11,691	<b>3,934</b>	-
Later than one year but not later than five years	<b>26,904</b>	31,691	<b>11,635</b>	-
Later than five years	<b>1,926</b>	2,418	<b>1,650</b>	-
	<b>40,783</b>	45,800	<b>17,219</b>	-

### **14 Other Information**

#### **Life of the Trust and SHT2**

The Trust and SHT2 terminates on the earliest of:

- the date specified by the Responsible Entity as the date of termination of the Trust and SHT2 in a notice given to Unitholders;
- a date which has been proposed to Unitholders by the Responsible Entity, and which the Unitholders have approved by Special Resolution; or
- the date on which the Trust and SHT2 terminates in accordance with the provisions of the Trust and SHT2 Constitution or by law.

### **15 Contingent liabilities and contingent assets**

As at 31 December 2008 the stapled entity has no contingent liabilities (30 June 2008: \$Nil).

As at 31 December 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 treated as a contingent asset.

As at 31 December 2008, SHT2 has no contingent liabilities and no contingent assets (30 June 2008: \$Nil).

### **16 Events subsequent to the end of the half year**

There have been no events subsequent to the end of the half year which would have a material effect on the stapled entity's or SHT2's interim Financial Statements as at 31 December 2008.

**Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2**

**Statement by the Directors' of the Responsible Entity of Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2  
For the half year ended 31 December 2008**

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

1. the Financial Statements and Notes set out on pages 5 to 20 are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the stapled entity and SHT2 as at 31 December 2008 and of its performance for the half year ended on that date; and
  - (b) complying with Australian Accounting Standards AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001;
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a); and
3. at the date of this declaration there are reasonable grounds to believe that the stapled entity and SHT2 will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn  
*Director*

Dated at Sydney, 19 February 2009





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

### **Report on the financial reports**

We have reviewed the accompanying consolidated interim financial report of Stockland Direct Office Trust No. 3 and its controlled entities (the Trust) and the interim financial report of Stockland Holding Trust No. 2 (SHT 2), which comprises the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the half-year ended on that date, a statement of accounting policies, other explanatory notes 1 to 16 and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Stockland Capital Partners Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the consolidated interim financial report of the Trust and the interim financial report of SHT 2 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 consolidated interim financial reports that are 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.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the consolidated interim financial report of the Trust and the interim financial report of SHT 2 based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the consolidated interim financial report of the Trust and the interim financial report of SHT 2 are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's and SHT 2's financial position as at 31 December 2008 and their performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Stockland Direct Office Trust No. 3 and its controlled entities and Stockland Holding Trust No. 2, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial reports.

A review of the consolidated interim financial report of the Trust and the interim financial report of SHT 2 consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.





### *Independence*

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

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of Stockland Direct Office Trust No. 3 and its controlled entities and the interim financial report of Stockland Holding Trust No. 2 are not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Trust's and SHT 2's financial position as at 31 December 2008 and of their performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Scott Fleming  
Partner

Sydney

19 February 2009