

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

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

**Consolidated Interim Report
31 December 2010**

Registered office:

133 Castlereagh Street
Sydney NSW 2000

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

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

Directors' Report

For the half year ended 31 December 2010

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No. 2 ("SHT2"), present their report together with the consolidated Interim Financial Report for the half year ended 31 December 2010 and the Independent Auditor's Review Report thereon. The consolidated Interim Financial Report comprises the Financial Report of the Trust and its controlled entities including Stockland Holding Trust No. 2 which together form the stapled entity ("stapled entity") and Stockland Holding Trust No.2 as an individual entity.

Stapled entity

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

SHT2

SHT2 was established on 10 November 2003 with SCPL appointed as the Trustee. SCPL was then appointed as the Responsible Entity on 18 July 2008 when SHT2 was registered as a managed investment scheme with the Australian Securities and Investment Commission ("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"). The Trust 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* requires one of the stapled entities of a stapled structure to be identified as the parent entity for the purpose of preparing a financial report. In accordance with this requirement, the Trust has been identified as the parent of the stapled entity. Accordingly from 18 August 2008, the results of SHT2 have been consolidated with that of the Trust and its controlled entities, the results of which have been referred to as "stapled entity" in the Financial Reports.

SHT2 Entity Information

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

Directors

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

Name	Date of appointment/resignation
<i>Non-Executive Directors</i>	
Mr Barry Neil, Chairman ¹	Appointed 19 October 2010
Mr Peter Scott ¹	Resigned 19 October 2010
Mr David Kent	Appointed 9 August 2004
Mr Anthony Sherlock	Appointed 9 August 2004
<i>Executive Directors</i>	
Mr Matthew Quinn	Appointed 19 October 2000
Mr Tim Foster (alternate Director for Mr Quinn)	Appointed 26 February 2010

¹ Mr Barry Neil and Mr Peter Scott are also directors of Stockland Corporation Limited.

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Directors' Report
For the half year ended 31 December 2010**

Principal activities

Stapled entity

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

SHT2

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

Review and results of operations

Stapled entity

The stapled entity recorded a profit from operating activities of \$1,100,000 for the half year ended 31 December 2010 (loss of \$2,975,000 for the half year ended 31 December 2009).

There were no distributions paid or declared by the stapled entity to Unitholders during the half year ended 31 December 2010.

SHT2

SHT2 recorded a loss from operating activities of \$1,738,000 for the half year ended 31 December 2010 (loss of \$2,233,000 for the half year ended 31 December 2009).

There were no distributions paid or declared by the SHT2 to Unitholders during the half year ended 31 December 2010.

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 and SHT2's consolidated Interim Financial Report as at 31 December 2010.

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

The external auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2010.

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 consolidated Interim Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Matthew Quinn

Director

Dated at Sydney, 17 February 2011



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

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

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 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

17 February 2011

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Consolidated Interim Statement of Comprehensive Income
For the half year ended 31 December 2010**

	Notes	Stapled half year ended		SHT2 half year ended	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue and other income					
Rent from investment properties		5,685	6,726	2,092	2,065
Interest income		73	42	-	-
Unwinding of discount on rental guarantee	4	-	45	-	-
Net gain from fair value adjustment on derivative financial instruments		882	464	-	-
Total revenue and other income		6,640	7,277	2,092	2,065
Expenses					
Investment property expenses		(1,689)	(1,798)	(597)	(524)
Finance costs relating to interest-bearing liabilities at amortised cost		(2,472)	(3,207)	-	-
Finance costs to related parties at amortised cost		-	-	(1,642)	(1,211)
Net loss from fair value adjustment of investment properties	4	(1,005)	(4,704)	(1,468)	(2,430)
Responsible Entity fees	13	(200)	(261)	(71)	(78)
Loss on sale of investment property		-	(76)	-	-
Other expenses		(174)	(206)	(52)	(55)
Total expenses		(5,540)	(10,252)	(3,830)	(4,298)
Profit/(loss) for the half year		1,100	(2,975)	(1,738)	(2,233)
Other comprehensive income/(expense)					
Amortisation of cash flow hedge reserve transferred to profit or loss	11	62	377	-	-
Other comprehensive income for the half year		62	377	-	-
Total comprehensive income/(expense) for the half year		1,162	(2,598)	(1,738)	(2,233)
Profit/(loss) for the half year attributable to:					
Unitholders of the Trust		2,838	(742)	-	-
Unitholders of SHT2 (as non-controlling interest)		(1,738)	(2,233)	(1,738)	(2,233)
Profit/(loss) for the half year		1,100	(2,975)	(1,738)	(2,233)
Total comprehensive income/(expense) for the half year attributable to:					
Unitholders of the Trust		2,900	(365)	-	-
Unitholders of SHT2 (as non-controlling interest)		(1,738)	(2,233)	(1,738)	(2,233)
Total comprehensive income/(expense) for the half year		1,162	(2,598)	(1,738)	(2,233)

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

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Consolidated Interim Balance Sheet
As at 31 December 2010**

	Notes	Stapled 31 Dec 2010 \$'000	Stapled 30 June 2010 \$'000	SHT2 31 Dec 2010 \$'000	SHT2 30 June 2010 \$'000
Current assets					
Cash and cash equivalents		4,435	2,798	-	-
Trade and other receivables		235	112	151	24
Other assets		903	841	263	284
Receivable from related entity		-	-	3,629	3,439
Total current assets		5,573	3,751	4,043	3,747
Non-current assets					
Investment properties	4	81,209	82,084	28,968	30,362
Trade and other receivables	5	540	770	365	536
Other assets	6	721	754	302	340
Total non-current assets		82,470	83,608	29,635	31,238
Total assets		88,043	87,359	33,678	34,985
Current liabilities					
Trade and other payables	7	1,905	1,883	640	477
Other liabilities		800	393	274	6
Total current liabilities		2,705	2,276	914	483
Non-current liabilities					
Trade and other payables	7	433	419	-	-
Interest-bearing loans and borrowings	8	54,843	54,806	32,032	32,032
Other liabilities	9	244	1,188	-	-
Total non-current liabilities		55,520	56,413	32,032	32,032
Total liabilities		58,225	58,689	32,946	32,515
Net assets		29,818	28,670	732	2,470
Unitholders' funds					
Issued capital	10	35,342	35,356	7,340	7,340
Undistributed loss		(5,825)	(8,663)	(6,608)	(4,870)
Reserves	11	(431)	(493)	-	-
		29,086	26,200	732	2,470
Non-controlling interest		732	2,470	-	-
Total Unitholders' funds		29,818	28,670	732	2,470

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

**Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Consolidated Interim Statement of Changes in Equity – Stapled Entity
For the half year ended 31 December 2010**

	Attributable to Unitholders of the stapled entity										Total Unitholders' Funds	
	Issued capital		Undistributed loss		Reserves		Non-controlling interest		Total Unitholders' Funds			
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009		
Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	35,356	36,884	(8,663)	(6,907)	(493)	(931)	2,470	4,467	28,670	33,513		
Other comprehensive income for the half year	-	-	-	-	62	377	-	-	62	377		
Profit/(loss) for the half year	-	-	2,838	(742)	-	-	(1,738)	(2,233)	1,100	(2,975)		
Total comprehensive income/(expense) for the half year	-	-	2,838	(742)	62	377	(1,738)	(2,233)	1,162	(2,598)		
Transactions with Unitholders in their capacity as owners:												
Deferred establishment costs	10	(14)	-	-	-	-	-	-	(14)	(14)		
Distributions paid/payable to Unitholders	12	-	(1,000)	-	-	-	-	-	-	(1,000)		
Closing balance	35,342	35,870	(5,825)	(7,649)	(431)	(554)	732	2,234	29,818	29,901		

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

Stockland Holding Trust No. 2
Interim Statement of Changes in Equity – SHT2
For the half year ended 31 December 2010

	Unitholders' Funds				Total Unitholders' Funds	
	Issued capital		Undistributed loss		31 Dec 2010	31 Dec 2009
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	\$'000	\$'000
Opening balance	7,340	7,340	(4,870)	(2,873)	2,470	4,467
Loss for the half year			(1,738)	(2,233)	(1,738)	(2,233)
Total comprehensive expense for the half year	-	-	(1,738)	(2,233)	(1,738)	(2,233)
Transactions with Unitholders in their capacity as owners:						
Distributions paid/payable to Stapled Unitholders	-	-	-	-	-	-
Closing balance	7,340	7,340	(6,608)	(5,106)	732	2,234

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

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Consolidated Interim Cash Flow Statement
For the half year ended 31 December 2010**

	Stapled half year ended		SHT2 half year ended	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities				
Cash receipts in the course of operations	7,011	7,636	2,743	2,427
Cash payments in the course of operations	(2,823)	(3,529)	(786)	(816)
Interest received	72	43	-	-
Interest paid	(2,321)	(3,232)	(1,642)	(1,211)
Net cash inflow from operating activities	1,939	918	315	400
Cash flows from investing activities				
Payment for investment properties	(205)	(34)	(125)	(8)
Proceeds from sale of investment properties	-	28,244	-	-
Net cash (utilised in)/from investing activities	(205)	28,210	(125)	(8)
Cash flows from financing activities				
Borrowing costs paid	(97)	-	-	-
Repayment of borrowings	-	(28,200)	-	-
Payments for terminating and entering into new derivatives	-	(168)	-	-
(Payment)/receipt from related entity	-	-	(190)	89
Distributions paid to Unitholders	-	(1,581)	-	(481)
Net cash outflow from financing activities	(97)	(29,949)	(190)	(392)
Net increase/(decrease) in cash and cash equivalents	1,637	(821)	-	-
Cash and cash equivalents at the beginning of the half year	2,798	3,855	-	-
Cash and cash equivalents at the end of the half year¹	4,435	3,034	-	-

¹ Cash includes an amount of \$1,296,212 in a designated bank account held as an off set account against the borrowings of the Trust as part of the Trust's loan covenant requirements.

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

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

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2010

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 3 (“the Trust”) and Stockland Holding Trust No. 2 (“SHT2”) are Managed Investment Schemes domiciled in Australia. The consolidated Interim Financial Report as at and for the half year ended 31 December 2010 comprises the consolidated Interim Financial Report of the Trust and its controlled entities (including SHT2) which together form the stapled entity (“stapled entity”) and Stockland Holding Trust No.2 as an individual entity.

The consolidated Interim Financial Report as at and for the half year ended 31 December 2010 was authorised for issue by the Directors of the Responsible Entity on 17 February 2011.

(a) Statement of compliance

The consolidated Interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB 134 “Interim Financial Reporting” and the Corporations Act 2001. The consolidated Interim Financial Report also complies with the International Financial Reporting Standards (“IFRSs”).

The consolidated Interim Financial Report of the stapled entity and SHT2 does not include all of the information required for a full Annual Financial Report, and should be read in conjunction with the Financial Report of the stapled entity and SHT2 as at and for the year ended 30 June 2010.

(b) Changes in Accounting Standards

There are a number of new and amended accounting standards issued by the Australian Accounting Standards Board which are applicable for reporting period on or before 1 July 2010. The stapled entity and SHT2 have adopted all mandatory new and amended accounting standards issued that are relevant to its operation and effective for the current reporting period.

There was no material impact on the consolidated Interim Financial Report as a result of the new and amended accounting standards adopted.

(c) Basis of consolidation

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

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

(d) Significant accounting policies

The accounting policies applied by the stapled entity and SHT2 in this consolidated Interim Financial Report are the same as those applied by the stapled entity and SHT2 in the Annual Financial Report of the stapled entity and SHT2 as at and for the year ended 30 June 2010.

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

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2010

2 Accounting estimates and assumptions

The preparation of the consolidated Interim Financial Report 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 this consolidated Interim Financial Report 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 Annual Financial Report of the stapled entity and SHT2 as at and for the year ended 30 June 2010.

3 Operating segments

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

**Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010**

4 Non-current assets – Investment properties

Stapled entity

Description	Acquisition date	Original purchase price \$'000	Cost including additions \$'000	Independent Valuation date	Independent Valuation \$'000	Capitalisation rate 31 Dec 10 %	Weighted average lease term 31 Dec 10 Years	30 Jun 10 Years	Stapled Book value 31 Dec 2010 \$'000	Stapled Book value 30 Jun 2010 \$'000
541 St Kilda Road, Melbourne, VIC ¹	June 2007	30,162	30,277	December 2010	25,000	9.50	1.94	2.46	25,000	25,227
222 Russell Street, Melbourne, VIC ¹	June 2007	16,879	17,002	December 2010	13,000	8.50	4.19	4.69	13,000	13,143
181 Great Eastern Highway, Belmont, WA ²	June 2007	13,756	13,841	December 2010	15,100	8.75	8.11	1.17	15,100	14,200
75 George Street, Parramatta, NSW ²	June 2007	39,328	39,669	December 2010	30,000	9.00	2.32	2.60	30,000	31,470
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										
Less amounts classified as:										
- Trade and other receivables										
- Other assets										
Total Investment properties										
									83,100	84,040
									(757)	(813)
									(1,134)	(1,143)
									81,209	82,084

¹ These properties are leasehold properties.

² These properties are freehold properties.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010

4 Non-current assets – Investment properties (continued)

SHT2

Description	Acquisition date	Original purchase price \$'000	Cost including additions \$'000	Independent Valuation date	Independent Valuation \$'000	Capitalisation rate 31 Dec 10 %	30 Jun 10 %	Weighted average lease term 31 Dec 10 Years	30 Jun 10 Years	SHT2		
										Book value 31 Dec 2010 \$'000	Book value 30 Jun 2010 \$'000	
75 George Street, Parramatta, NSW ^{1,2}	Aug 2008	37,500	39,595	December 2010	30,000	9.00	9.00	2.32	2.60	30,000	31,470	
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)											30,000	31,470
Less amounts classified as:												
- Trade and other receivables											(498)	(536)
- Other assets											(534)	(572)
Total Investment properties											<u>28,968</u>	<u>30,362</u>

¹ In June 2007, a put and call option was issued to SDOT No. 3 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 SDOT No. 3 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 SDOT No. 3. 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 from SDOT No. 3 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 SHT2. Refer to Note 13.

² This property is a freehold property.

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010**

	Stapled		SHT2	
	31 Dec 2010 \$'000	30 June 2010 \$'000	31 Dec 2010 \$'000	30 June 2010 \$'000
4 Non-current assets – Investment properties (continued)				
Reconciliation – investment properties¹				
<i>Direct investments and controlled entities</i>				
Carrying amount at the beginning of the financial period	82,084	114,425	30,362	32,701
Disposals	-	(26,498)	-	-
Net loss from fair value adjustments of investment properties	(1,005)	(6,033)	(1,468)	(2,430)
Unwinding of discount on rental guarantee	-	45	-	-
Expenditure capitalised	130	190	74	91
Transfer to other assets	-	(45)	-	-
Carrying amount at the end of the financial period	81,209	82,084	28,968	30,362
¹ Current period represents movements during the six month period to 31 December 2010. Prior period represents movements during the twelve months to 30 June 2010.				
5 Non-current assets – Trade and other receivables				
Straight-lining of rental income	540	770	365	536
6 Non-current assets – Other assets				
Lease incentive (deferred cost)	721	754	302	340
7 Current and Non-current liabilities – Trade and other payables				
Current liabilities – Trade and other payables				
Trade payables and accruals	1,792	1,786	612	477
Goods and services (“GST”) payable	85	79	28	-
Interest payable on loan facility	28	18	-	-
	1,905	1,883	640	477
Non-current liabilities – Trade and other payables				
Trust establishment fee	433	419	-	-
8 Non-current liabilities – Interest-bearing loans and borrowings				
Non-current liabilities – Interest-bearing loans and borrowings				
Loan facility with financial institution	55,153	55,153	-	-
Less: attributable transaction costs	(310)	(347)	-	-
Interest-bearing loan with related entity	-	-	32,032	32,032
Balance Sheet carrying amount at amortised cost	54,843	54,806	32,032	32,032

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

Notes to the Consolidated Interim Financial Statements For the half year ended 31 December 2010

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

Loan facility – Stapled entity

The Trust has a \$60,810,000 (30 June 2010: \$60,810,000) loan facility agreement, comprising a property facility and capital expenditure facility (collectively known as “loan facility”), with Australia and New Zealand Bank (“ANZ”). As at 31 December 2010, \$55,153,000 (30 June 2010: \$55,153,000) had been drawn on the loan facility.

The Trust’s original loan facility was due to mature on 27 June 2010. On 30 September 2009, the Trust refinanced its loan facility with ANZ. The Trust and ANZ agreed to extend the loan maturity to 27 June 2012 subject to certain terms of the original loan facility being varied.

The weighted average interest rate on the loan facility for the period to 31 December 2010 was 7.67% p.a. (30 June 2010: 6.59% p.a.). This loan facility has been hedged through an interest rate swap agreement (refer to below paragraphs). Taking into account the interest rate swap in place, the weighted average interest rate on the loan facility for the period to 31 December 2010 is 8.40% p.a. (30 June 2010: 8.43% p.a.).

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

Interest rate swap contract – Stapled entity

The Responsible Entity, on behalf of the Trust, has entered into an interest rate swap agreement with 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 a fixed rate borrowing.

The interest rate swap on the loan facility will incur a fixed cost equal to 6.35% p.a. (30 June 2010: 6.35% p.a.) payable quarterly in arrears and will terminate on the earlier of 3.5 years from 31 December 2010 and when the underlying debt becomes due and payable.

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

As a result of not applying hedge accounting, the remaining balance in the cash flow hedge reserve is amortised over the life of the original swap. Refer to Note 11.

Loan facility - Stockland Holding Trust No. 2

On 18 August 2008, SHT2 entered into a loan agreement with SDOT No. 3 for \$32,032,000 to repay the existing debt owing to Stockland Trust by SHT2 which related to the original purchase of the Parramatta property by SHT2. Refer to Note 13.

The loan was due to mature on 27 June 2010. On 30 September 2009, SHT2 and SDOT No. 3 agreed to extend the loan maturity to 27 June 2012. The loan may be extended on an ongoing basis upon agreement between both SHT2 and SDOT No. 3. Any further extension of this loan is dependent upon the refinancing of SDOT No. 3’s loan facility.

Interest is payable by SHT2 annually in arrears. The weighted average interest rate on the property facility for the period to 31 December 2010 was 10.17% p.a. (30 June 2010: 7.75% p.a.).

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010**

	Stapled		SHT2	
	31 Dec 2010 \$'000	30 June 2010 \$'000	31 Dec 2010 \$'000	30 June 2010 \$'000
9 Non-current liabilities – Other liabilities				
Fair value of financial instrument	244	1,188	-	-

10 Issued capital

Stapled entity

	31 Dec 2010 No. of Stapled Units	30 June 2010 No. of Stapled Units	31 Dec 2010 \$'000	30 June 2010 \$'000
Units on issue	60,020,000	60,020,000	35,342	35,356

Date	Details	No. of Units	Issue price	\$'000
Movement in units				
1 July 2009	Opening balance	60,020,000		36,884
30 September 2009	Distribution paid from contributed equity	-	-	(500)
31 December 2009	Distribution paid from contributed equity	-	-	(500)
31 December 2009	Deferred establishment costs	-	-	(14)
31 December 2009	Balance	60,020,000		35,870
31 March 2010	Distribution paid from contributed equity	-	-	(500)
30 June 2010	Deferred establishment costs	-	-	(14)
30 June 2010	Balance	60,020,000		35,356
31 December 2010	Deferred establishment costs	-	-	(14)
31 December 2010	Closing balance	60,020,000		35,342

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 (including
Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010**

10 Issued capital (continued)

SHT2

	31 Dec 2010	30 June 2010	31 Dec 2010	30 June 2010
	No. of Stapled Units	No. of Stapled Units	\$'000	\$'000
Units on issue	60,020,000	60,020,000	7,340	7,340

Date	Details	No. of Units	Issue price	\$'000
Movement in units				
1 July 2009	Opening balance	60,020,000	-	7,340
31 December 2009	Balance	60,020,000	-	7,340
30 June 2010	Balance	60,020,000	-	7,340
31 December 2010	Closing balance	60,020,000		7,340

Rights and restrictions over units

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

	Stapled		SHT2	
	31 Dec 2010 \$'000	30 June 2010 \$'000	31 Dec 2010 \$'000	30 June 2010 \$'000
Balance at the beginning of the financial period	(493)	(931)	-	-
Amortisation of cash flow hedge reserve transferred to profit or loss ¹	62	438	-	-
Balance at the end of the financial period	(431)	(493)	-	-

11 Reserves

Balance at the beginning of the financial period	(493)	(931)	-	-
Amortisation of cash flow hedge reserve transferred to profit or loss ¹	62	438	-	-
Balance at the end of the financial period	(431)	(493)	-	-

¹ Current period represents amortisation during the six month period to 31 December 2010. Prior period represents amortisation during the twelve months to 30 June 2010.

12 Distributions to Unitholders

Stapled entity

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

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

Interim	Distribution per Unit	Total amount \$'000	Date of payment	Tax deferred
2009				
30 September 2009	0.83¢	500 ¹	31 October 2009	100%
31 December 2009	0.83¢	500 ¹	26 February 2010	100%
		1,000		

¹ This distribution was a distribution from contributed equity.

**Stockland Direct Office Trust No. 3 and its controlled entities (including
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Notes to the Consolidated Interim Financial Statements
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12 Distributions to Unitholders (continued)

SHT2

No distributions to Unitholders were recognised in the half year or the previous half year by SHT2.

13 Related parties

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

The relevant interest of each Director of the Responsible Entity holding stapled units in the stapled entity and SHT2 as at 31 December 2010 is as follows:

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

	Stapled half year ended		SHT2 half year ended	
	2010	2009	2010	2009
Responsible Entity fees and other transactions	\$'000	\$'000	\$'000	\$'000

Trust establishment fee – Stapled entity

As stated in the PDS, the Responsible Entity has agreed for the Trust to defer payment of part of the Trust establishment fee amounting to \$550,000 and has been included in Non-current liabilities – Trade and other payables as at 31 December 2010 of \$433,301 (30 June 2010: \$418,712).

- - n/a n/a

Responsible Entity fees – Stapled entity

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

For the half year ended 31 December 2010, the Responsible Entity has agreed for the stapled entity to defer payment of part of the Responsible Entity fees amounting to \$90,354 (half year ended 31 December 2009: \$117,276).

Total deferred and accrued Responsible Entity fees by the stapled entity included in Current liabilities – Trade and other payables as at 31 December 2010 is \$920,607 (30 June 2010: \$829,751).

200 261 n/a n/a

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

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2010

13 Related parties (continued)

Responsible Entity fees and other transactions (continued)	Stapled half year ended		SHT2 half year ended	
	Half year ended 2010 \$'000	2009 \$'000	Half year ended 2010 \$'000	2009 \$'000
<i>Responsible Entity fees – SHT2</i>				
The Responsible Entity charged responsible entity fees to SHT2 calculated at 0.45% p.a. of the gross value of the assets of SHT2.				
For the half year ended 31 December 2010, the Responsible Entity has agreed for the stapled entity and SHT2 to defer payment of part of the Responsible Entity fees amounting to \$58,458 (half year ended 31 December 2009: \$35,149).				
Total deferred and accrued Responsible Entity fees by SHT2 included in Current liabilities – Trade and other payables as at 31 December 2010 is \$180,177 (30 June 2010: \$148,316).	n/a	n/a	71	78
<i>Performance fee – Stapled entity and SHT2</i>				
The Responsible Entity is entitled to a performance fee calculated as 20.5% of the performance of the stapled entity above the benchmark (10 year bond yield plus 3.0% per annum). The performance fee is calculated for each six month half year and is capped at 0.46125% p.a. on the closing gross asset value of the stapled entity as disclosed on the balance sheet at each reporting date or realised on a sale of the property or properties during the year.				
The stapled entity has not provided for a performance fee as at 31 December 2010 (30 June 2010: \$nil)	-	-	-	-
SHT2 has not provided for a performance fee as at 31 December 2010 (30 June 2010: \$nil)	-	-	-	-
Total Responsible Entity fees and other transactions recognised in the consolidated Interim Statement of Comprehensive Income	200	261	71	78

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010**

13 Related parties (continued)

Other related party transactions

Limited Liquidity Facility (“LLF”) – Stapled entity & SHT2

ANZ had 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 was 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. STML, as Responsible Entity for Stockland Trust, had placed a standing order to acquire the Stapled Units that ANZ acquired under the LLF. The LLF facility terminated after the 30 September 2010 quarter as STML owns 19.9% of the stapled units, the maximum allowable under the PDS.

During the half year STML, as Responsible Entity of Stockland Trust, acquired 985,000 Stapled Units (year ended 30 June 2010: 2,057,000) in the stapled entity via the LLF.

Units held by Stockland Trust – Stapled entity & SHT2

As at 31 December 2010, STML as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 11,934,000 Stapled Units (30 June 2010: 10,949,000) in the Trust.

Property Management Fee – Stapled entity

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$217,664 (31 December 2009: \$241,834) was paid/payable to the property manager by the stapled entity during the half year. Total accrued property management fees by the stapled entity included in Current liabilities – Trade and other payables as at 31 December 2010 is \$154,736 (30 June 2010: \$332,000).

Property Management Fee – SHT2

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$78,765 (31 December 2009: \$77,037) was paid/payable to the property manager by SHT2 during the half year. Total accrued property management fees by the SHT2 included in Current liabilities – Trade and other payables as at 31 December 2010 is \$66,747 (30 June 2010: \$100,819).

Interest-bearing loan from SDOT No. 3 – SHT2

As at 31 December 2010, SHT2 has a loan payable to SDOT No. 3 of \$32,032,000 (30 June 2010: \$32,032,000). Interest is payable to SDOT No. 3 annually in arrears and is included in the intercompany receivable balance. The weighted average interest rate on the loan for the period to 31 December 2010 was 10.17% p.a. (7.50% p.a. for the period to 31 December 2009).

The loan was due to mature on 27 June 2010. On 30 September 2009, SHT2 and SDOT No. 3 agreed to extend the loan maturity to 27 June 2012. The loan may be extended on an ongoing basis upon agreement between both SHT2 and SDOT No. 3. Any further extension of this loan between SHT2 and SDOT No. 3 is dependent upon the refinancing of SDOT No. 3’s loan facility.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010

13 Related parties (continued)

Other related party transactions (continued)

Intercompany balance between SHT2 and SDOT No. 3

	31 Dec 2010	30 June 2010
	\$'000	\$'000
Aggregate amount receivable by SHT2 from SDOT No. 3	<u>3,629</u>	<u>3,439</u>

The intercompany balances are interest free and repayable at call.

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 from the Trust 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 of 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 \$8,010,000 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 \$32,032,000 relating to the purchase of the Parramatta property was paid to Stockland by SHT2 in August 2008.

Stockland granted a concurrent lease to the Trust until August 2008. A 12 month rental guarantee on all vacancies was provided to the Trust at the time of entering into the concurrent lease.

Interest rate swap agreement with Stockland Trust Management Limited

STML has provided an interest rate swap on the loan facility to the Trust. The interest rate swap will incur a fixed cost equal to 6.35% p.a. payable quarterly in arrears and will terminate on the earlier of 4 years from 30 June 2010 and when the underlying debt becomes due and payable (refer to Note 8).

During the financial year ended 30 June 2010, the Trust and STML agreed for the original interest rate swap agreement to be terminated and a new interest rate swap entered into with a reduced face value of \$55,153,000 (30 June 2009: \$86,353,000). All other terms of the new interest rate swap remained unchanged from the terms of the original interest rate swap agreement (i.e. the new interest rate swap will still incur a fixed cost equal to 6.35% p.a. payable quarterly in arrears and will terminate on the earlier of 3.5 years from 31 December 2010 and when the underlying debt becomes due and payable).

Loan facility offer

Stockland Trust Management Limited has provided a loan facility offer to the Trust on market terms and conditions available at the date of acceptance of the loan facility offer. The loan facility offer has not yet been accepted by the Trust.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2010

14 Commitments

As at 31 December 2010, the stapled entity and SHT2 have no commitments (30 June 2010: \$nil).

Non-cancellable operating lease receivable from investment property tenants

Non-cancellable operating lease commitments receivable:

	Stapled		SHT2	
	31 Dec 2010	30 Jun 2010	31 Dec 2010	30 Jun 2010
	\$'000	\$'000	\$'000	\$'000
Within one year	9,631	9,535	4,003	3,920
Later than one year but not later than five years	17,625	17,305	7,411	7,114
Later than five years	401	401	239	239
	27,657	27,241	11,653	11,273

15 Other Information

Life of the stapled entity

The stapled entity terminates on the earliest of:

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

Under the PDS and Constitution a Unitholders meeting must be convened by 30 June 2014 to consider a resolution to continue or terminate the Trust.

Life of SHT2

SHT2 terminates on the earliest of:

- the date specified by the Responsible Entity as the date of termination of 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 SHT2 terminates in accordance with the provisions of the SHT2 Trust Constitution or by law.

Under the PDS and Constitution a Unitholders meeting must be convened by 30 June 2014 to consider a resolution to continue to terminate the SHT2.

16 Contingent liabilities and contingent assets

As at 31 December 2010 the stapled entity and SHT2 have no contingent liabilities or contingent assets (30 June 2010: \$nil).

17 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 and SHT2's consolidated Interim Financial Report as at 31 December 2010.

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

Directors' Declaration

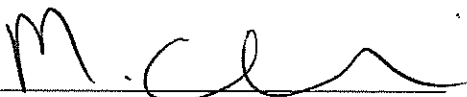
For the half year ended 31 December 2010

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 4 to 21 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 2010 and their 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 consolidated Interim 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, 17 February 2011



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

We have reviewed the accompanying consolidated interim financial report of Stockland Direct Office Trust No. 3 and its controlled entities (the Stapled Entity) and the interim financial report of Stockland Holding Trust No. 2 (SHT 2), which comprises the Interim balance sheets as at 31 December 2010, and the Interim statements of comprehensive income, Interim statements of changes in equity and Interim cash flow statements for the half-year ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information 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 of the consolidated interim financial report of the Stapled Entity and the interim financial report of SHT 2 that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the consolidated and individual interim financial reports that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated interim financial report of the Stapled Entity 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 Stapled Entity 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 Stapled Entity's and SHT 2's financial position as at 31 December 2010 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 Stapled Entity 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 Stapled Entity's and SHT 2's financial position as at 31 December 2010 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

17 February 2011