

**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)

**Interim Financial Report
for the half year ended
31 December 2009**

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 2009

The Directors of Stockland Capital Partners Limited (“SCPL”), the Responsible Entity of Stockland Direct Office Trust No. 3 (“the Trust”) present their report together with the interim Financial Report for the half year ended 31 December 2009 and the Independent Auditor’s Review Report thereon. The interim Financial Report comprises the Financial Report of the Trust and its controlled entities including Stockland Holding Trust No. 2 (“SHT2”) which together form the stapled entity (“stapled entity”).

Separate financial statements for SHT2 for the half year ended 31 December 2009 were approved by the Directors of SCPL, the Responsible Entity of the Trust and SHT2 on 18 February 2010. As SHT2 forms part of the stapled entity, the interim Financial Report of SHT2 should be read in conjunction with the interim Financial Report of the stapled entity as at and for the half year ended 31 December 2009.

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”).

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 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.

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.

**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 2009**

Directors

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

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

Principal activities

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.

Review and results of operations

The stapled entity recorded a loss from operating activities calculated in accordance with Australian Accounting Standards ("AASBs") of \$2,975,000 for the half year ended 31 December 2009 (loss of \$4,464,000 for the half year ended 31 December 2008). This loss includes a number of certain significant items that, in the opinion of the Directors, need adjustment to enable Unitholders to obtain an understanding of the stapled entity's underlying profit (refer to the table on the next page). The Directors will continue to monitor the performance of the stapled entity in light of the current market conditions.

The underlying profit for the half year ended 31 December 2009 was \$1,296,000 (\$2,230,000 for the half year ended 31 December 2008), reflecting a 42% decrease from the previous corresponding period.

Distributions paid or declared by the stapled entity and SHT2 to Unitholders during the half year ended 31 December 2009 are set out in Note 11 of the interim Financial Report.

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 2009

Review and results of operations (continued)

The following table provides information to Unitholders that reconciles underlying profit to statutory profit. Underlying profit reflects statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the result for the ongoing business activities of the stapled entity, in accordance with the AICD/Finsia principles for reporting underlying profit.

		Half year ended	
	Notes	2009 \$'000	2008 \$'000
Underlying profit		1,296	2,230
Certain significant items:			
Net loss from fair value adjustment of investment properties	4	(4,704)	(6,523)
Unwinding of discount on rental guarantee	4	45	51
Net gain/(loss) from fair value adjustment on derivative financial instruments		464	(222)
Loss on sale of investment property		(76)	-
Loss for the half year attributable to Unitholders		(2,975)	(4,464)

Independent valuations were undertaken on all of the stapled entity's investment properties as at 31 December 2009 resulting in a downwards revaluation totalling \$4,704,000 (half year ending 31 December 2008: \$6,523,000) being recognised in the stapled entity's Interim Statement of Comprehensive Income. The total portfolio was revalued downwards to \$85,200,000. This represents a decrease of 5% on the 30 June 2009 total carrying value of \$89,800,000 (excluding 40 Cameron Avenue, Belconnen, ACT ("Belconnen") which was sold during the current half year). Refer to Note 4 for individual property values.

Update of debt refinancing

On 30 September 2009, the Trust and Australia and New Zealand Bank ("ANZ") agreed and finalised the terms of the refinanced loan facility that was due to mature on 27 June 2010. The loan facility was extended for a further two years with a maturity date of 27 June 2012. Refer to Note 6 for further detail on the refinanced loan facility.

Sale of 40 Cameron Avenue, Belconnen, ACT

Following the approval from Unitholders on 30 June 2009 to authorise the Responsible Entity to sell all or any of the properties of the Trust and its controlled entities at such time it considers appropriate, on 30 November 2009, the Trust completed the sale of its 50% interest in the Belconnen property for \$28,250,000¹ to STML as the Responsible Entity of Stockland Trust which has the remaining 50% interest as a tenant in common. The sale price of Belconnen was in line with the book value at 30 June 2009 of \$28,250,000. Refer to Note 6 and 12.

On 30 November 2009, \$28,200,000 from the settlement proceeds was used by the Trust to partially pay down the Trust's loan facility from \$83,353,000 at 30 June 2009 down to \$55,153,000 as at 31 December 2009.

Update of the Trust's derivative financial instrument

To coincide with the pay down of the loan facility of \$28,200,000 discussed above, on 30 November 2009, the Trust and STML agreed for the original interest rate swap agreement between the Trust and STML 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). Refer to Note 6 and 12 for further detail.

¹ After settlement adjustments, the proceeds from the sale of the Belconnen property was \$28,244,099.

**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 2009

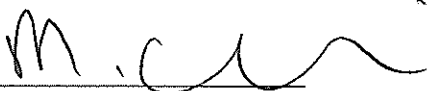
**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act
2001**

The external auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the half year ended 31 December 2009.

Rounding

The stapled entity is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the 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, 18 February 2010



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, including 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 2009 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

February 2010

**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Interim Statement of Comprehensive Income
For the half year ended 31 December 2009**

		Half year ended	
		2009	2008
	Notes	\$'000	\$'000
Revenue and other income			
Rent from investment properties		6,726	7,026
Interest income		42	72
Unwinding of discount on rental guarantee	4	45	51
Net gain from fair value adjustment on derivative financial instruments ¹		464	-
Total revenue and other income		7,277	7,149
Expenses			
Investment property expenses		(1,798)	(1,631)
Finance costs relating to interest-bearing liabilities at amortised cost		(3,207)	(2,373)
Finance costs to related parties at amortised cost		-	(332)
Net loss from fair value adjustment of investment properties	4	(4,704)	(6,523)
Responsible Entity fees	12	(261)	(325)
Net loss from fair value adjustment on derivative financial instruments		-	(222)
Loss on sale of investment property	4	(76)	-
Other expenses		(206)	(207)
Total expenses		(10,252)	(11,613)
Loss for the half year		(2,975)	(4,464)
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges	10	-	(9,494)
Change in fair value of cash flow hedges transferred to profit or loss	10	377	-
Other comprehensive income/(expense) for the half year		377	(9,494)
Total comprehensive expense for the half year		(2,598)	(13,958)
Loss for the half year attributable to:			
Unitholders of the Trust (parent entity)		(742)	(1,923)
Unitholders of SHT2 (as non-controlling interest)		(2,233)	(2,541)
Loss for the half year		(2,975)	(4,464)
Total comprehensive expense for the half year attributable to:			
Unitholders of the Trust (parent entity)		(365)	(11,417)
Unitholders of SHT2 (as non-controlling interest)		(2,233)	(2,541)
Total comprehensive expense for the half year		(2,598)	(13,958)

¹ During the current half year, the Trust paid \$168,000 to STML to terminate the original interest rate swap agreement and enter into a new interest rate swap agreement on 30 November 2009. Refer to Note 6 and 12 for further detail on the interest rate swap.

The above 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)
Interim Balance Sheet
As at 31 December 2009**

	Notes	31 Dec 2009 \$'000	30 June 2009 \$'000
Current assets			
Cash and cash equivalents		3,034	3,855
Trade and other receivables		138	133
Other assets		841	577
Total current assets		4,013	4,565
Non-current assets			
Investment properties	4	83,257	114,425
Trade and other receivables		742	927
Other assets	5	824	2,319
Total non-current assets		84,823	117,671
Total assets		88,836	122,236
Current liabilities			
Trade and other payables		3,535	3,322
Interest-bearing loans and borrowings	6	-	83,225
Other liabilities	7	523	1,212
Total current liabilities		4,058	87,759
Non-current liabilities			
Interest-bearing loans and borrowings	6	54,877	-
Other liabilities	8	-	964
Total non-current liabilities		54,877	964
Total liabilities		58,935	88,723
Net assets		29,901	33,513
Unitholders' funds			
Issued capital	9	35,870	36,884
Undistributed loss		(7,649)	(6,907)
Reserves	10	(554)	(931)
		27,667	29,046
Non-controlling interest		2,234	4,467
Total Unitholders' funds		29,901	33,513

The above 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)
Interim Statement of Changes in Equity
For the half year ended 31 December 2009

	Notes	Attributable to Unitholders of the stapled entity									
		Issued capital		Undistributed		Reserves		Non-controlling interest		Total Unitholders' Funds	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Stapled entity											
Opening balance		36,884	49,009	(6,907)	3,759	(931)	3,325	4,467	-	33,513	56,093
Other comprehensive income/(expense) for the half year	10	-	-	-	-	377	(9,494)	-	-	377	(9,494)
Loss for the half year		-	-	(742)	(1,923)	-	-	(2,233)	(2,541)	(2,975)	(4,464)
Total comprehensive expense for the half year		-	-	(742)	(1,923)	377	(9,494)	(2,233)	(2,541)	(2,598)	(13,958)
Transactions with Unitholders in their capacity as owners:											
Return of capital to Unitholders	9	-	(8,008)	-	-	-	-	-	-	-	(8,008)
Deferred establishment costs	9	(14)	(65)	-	-	-	-	-	-	(14)	(65)
Distributions paid/payable to Unitholders	11	(1,000)	(2,401)	-	-	-	-	-	-	(1,000)	(2,401)
Units issued by non-controlling interest to Unitholders		-	-	-	-	-	-	-	7,821	-	7,821
Closing balance		35,870	38,535	(7,649)	1,836	(554)	(6,169)	2,234	5,280	29,901	39,482

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)
Interim Cash Flow Statement
For the half year ended 31 December 2009**

		Half year ended	
	Notes	2009	2008
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		7,636	8,115
Cash payments in the course of operations		(3,529)	(3,981)
Interest received		43	72
Interest paid		(3,232)	(2,663)
Net cash inflow from operating activities		918	1,543
Cash flows from investing activities			
Payment for investment properties		(34)	(32,086)
Proceeds from sale of investment properties		28,244	-
Net cash inflow from/(utilised in) investing activities		28,210	(32,086)
Cash flows from financing activities			
Proceeds from external party financing		-	29,160
Repayment of borrowings		(28,200)	-
Borrowing costs paid		-	(31)
Return of capital to Unitholders	9	-	(8,008)
Proceeds from issue of units to Unitholders	9	-	8,008
Payments for terminating and entering into new derivatives		(168)	(187)
Distributions paid to Unitholders	11	(1,581)	(2,393)
Net cash (utilised in)/inflow from financing activities		(29,949)	26,549
Net decrease in cash and cash equivalents		(821)	(3,994)
Cash and cash equivalents at the beginning of the half year		3,855	7,915
Cash and cash equivalents at the end of the half year		3,034	3,921

The above 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 Interim Financial Statements For the half year ended 31 December 2009

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 3 (“the Trust”) is a Managed Investment Scheme domiciled in Australia. The interim Financial Report as at and for the half year ended 31 December 2009 comprises the interim Financial Report of the Trust and its controlled entities (including SHT2) which together form the stapled entity (“stapled entity”).

The interim Financial Report as at and for the half year ended 31 December 2009 was authorised for issue by the Directors of the Responsible Entity on 18 February 2010.

(a) Statement of compliance

The interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB 134 “Interim Financial Reporting” and the Corporations Act 2001. The interim Financial Report also complies 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 stapled entity and SHT2 as at and for the year ended 30 June 2009.

(b) Basis of preparation

The interim Financial Report is presented in Australian dollars, which is the stapled entity’s functional currency.

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

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

(c) Changes in accounting standards

The following amended accounting standard has been adopted by the stapled entity as of 1 July 2009. The significant impact of this amended standard (to the extent relevant to the stapled entity) is set out below:

Revised AASB 101 “Presentation of Financial Statements” (“AASB 101”) introduced as a financial statement (formerly “primary” statement) the “Statement of Comprehensive Income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs.

(d) Basis of consolidation

The interim Financial Report 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 Statement of Comprehensive Income and Balance Sheet.

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

1 Summary of significant accounting policies (continued)

(e) Significant accounting policies

The accounting policies applied by the stapled entity in this interim Financial Report are the same as those applied by the stapled entity in the Annual Financial Report of the stapled entity as at and for the year ended 30 June 2009.

2 Accounting estimates and assumptions

The preparation of the 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 interim Financial Report the significant judgements made by the Directors in applying the stapled entity'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 as at and for the year ended 30 June 2009.

3 Segment reporting

The stapled entity operates solely in the business of investment management in Australia.

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

4 Non-current assets – Investment properties

Description	Acquisition date	Original purchase price	Cost including additions	Independent Valuation date	Independent Valuation	Capitalisation rate		Weighted average lease term ⁵		Stapled Book value	Stapled Book value
		\$'000	\$'000	date	\$'000	31 Dec 09 %	30 Jun 09 %	31 Dec 09 Years	30 Jun 09 Years	31 Dec 2009 \$'000	30 Jun 2009 \$'000
40 Cameron Avenue, Belconnen, ACT ¹	June 2007	34,912	-	June 2009	-	-	8.25	-	2.68	-	28,250
541 St Kilda Road, Melbourne, VIC ³	June 2007	30,162	30,215	Dec 2009	25,200	9.50	9.00	2.95	2.93	25,200	25,400
222 Russell Street, Melbourne, VIC ³	June 2007	16,879	16,883	Dec 2009	13,000	8.50	9.00	0.59	1.10	13,000	14,100
181 Great Eastern Highway, Belmont, WA ^{4,6}	June 2007	13,756	13,775	Dec 2009	15,500	9.25	10.00	1.67	2.17	15,500	16,300
75 George Street, Parramatta, NSW ^{2,4}	June 2007	39,328	39,512	Dec 2009	31,500	9.00	8.50	3.11	3.60	31,500	34,000
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										85,200	118,050
Less amounts classified as:											
- Trade and other receivables										(785)	(970)
- Other assets										(1,158)	(2,655)
Total Investment properties										83,257	114,425

¹ The Trust completed the sale of its 50% interest in Belconnen for \$28,250,000 to STML during the half year. Refer to Note 12 for further detail.

² 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 from the Trust 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.

³ These properties are leasehold properties.

⁴ These properties are freehold properties.

⁵ Weighted average lease term is stated as years by income.

⁶ In March 2009, the Trust was issued a notice from the Department of Environment and Conservation (WA) (“DEC”) classifying the land at the Belmont property as an affected site - ‘Contaminated – Remediation Required’. Independent consultants have advised that the Belmont property did not warrant the classification provided by DEC. A formal appeal against the notice was lodged with DEC and in November 2009, the DEC have confirmed that the Belmont property is not contaminated and has been re-classified as ‘not contaminated – unrestricted use’.

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

Notes to the Interim Financial Statements

	31 Dec 2009 \$'000	30 June 2009 \$'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	114,425	133,293
Disposals ²	(26,498)	-
Net loss from fair value adjustments of investment properties	(4,704)	(17,748)
Unwinding of discount on rental guarantee	45	102
Expenditure capitalised	34	48
Transfer to other assets	(45)	(1,270)
Carrying amount at the end of the financial period	<u>83,257</u>	<u>114,425</u>

¹ Current period represents movements during the six month period to 31 December 2009. Prior period represents movements during the twelve months to 30 June 2009.

² Relates to the disposal of the Trust's 50% interest in Belconnen for \$28,250,000 to STML on 30 November 2009. The sale price was in line with the book value at 30 June 2009 of \$28,250,000. Refer to Note 12 for further detail. The total disposal included \$1,587,000 of the discounted rental income support and \$241,000 of straight-lining of rent previously classified in Trade and other receivables and Other assets. In total, the book value of Belconnen was \$28,326,000 as at the date of the sale being 30 November 2009.

5 Non-current assets – Other assets

Fair value of hedging instrument	45	-
Rental income support	-	1,542
Other	779	777
	<u>824</u>	<u>2,319</u>

6 Current and Non-current liabilities – Interest-bearing loans and borrowings

Current liabilities – Interest-bearing loans and borrowings

Loan facility with financial institution	-	83,353
Less: attributable transaction costs	-	(128)
Balance Sheet carrying amount at amortised cost	<u>-</u>	<u>83,225</u>

Non-current liabilities – Interest-bearing loans and borrowings

Loan facility with financial institution	55,153	-
Less: attributable transaction costs	(276)	-
Balance Sheet carrying amount at amortised cost	<u>54,877</u>	<u>-</u>

Loan facility

The Trust has a \$60,810,000 (30 June 2009: \$89,010,000) 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 2009, \$55,153,000 (30 June 2009: \$83,353,000) 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 2009 was 5.32% p.a. (30 June 2009: 6.23% 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 2009 is 7.71% p.a. (30 June 2009: 6.24% p.a.).

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

6 Current and Non-Current Liabilities – Interest-bearing loans and borrowings (continued)

Loan facility (continued)

Following the sale of the Belconnen property, on 30 November 2009, \$28,200,000 was used to partially pay down the Trust's loan facility. As a result, the drawn down balance on the loan facility decreased to \$55,153,000 as at 31 December 2009. Refer to Note 4 and 12 for further detail on the sale of the Belconnen property.

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

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 2009: 6.35% p.a.) payable quarterly in arrears and will terminate on the earlier of 4.5 years from 31 December 2009 and when the underlying debt becomes due and payable.

To coincide with the pay down of the loan facility of \$28,200,000 discussed above, on 30 November 2009, 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 4.5 years from 31 December 2009 and when the underlying debt becomes due and payable).

The Trust paid \$168,000 to STML during the half year ended 31 December 2009 (\$Nil for the half year ending 31 December 2008) as a result of terminating the original interest rate swap agreement and entering into a new interest rate swap agreement. Refer to Note 12 for further details.

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 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.

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

	31 Dec 2009 \$'000	30 June 2009 \$'000
7 Current liabilities – Other liabilities		
Deferred consideration – Opening	-	32,032
Settlement of deferred consideration	-	(32,032)
Deferred consideration – Closing	-	-
Other liabilities	523	1,212
	523	1,212

8 Non-current liabilities – Other liabilities

Fair value of hedging instrument	-	964
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Refer to Note 6 for further discussion regarding derivative financial instruments.

9 Issued capital

	31 Dec 2009 No. of Stapled Units	30 June 2009 No. of Stapled Units	31 Dec 2009 \$'000	30 June 2009 \$'000
Units on issue	60,020,000	60,020,000	35,870	36,884

Date	Details	No. of Units	Issue price	\$'000
Movement in units				
1 July 2008	Opening Balance	60,020,000		49,009
	Return of capital to Unitholders for Stapled			
18 August 2008	Units in SHT2	-	-	(8,008)
30 September 2008	Distribution paid from contributed equity	-	-	(1,200)
31 December 2008	Distribution paid from contributed equity	-	-	(1,201)
31 March 2009	Distribution paid from contributed equity	-	-	(1,080)
30 June 2009	Distribution paid from contributed equity	-	-	(600)
30 June 2009	Deferred establishment costs	-	-	(36)
30 June 2009	Balance	60,020,000		36,884
30 September 2009	Distribution paid from contributed equity	-	-	(500)¹
31 December 2009	Distribution paid from contributed equity	-	-	(500)¹
31 December 2009	Deferred establishment costs	-	-	(14)
31 December 2009	Closing balance	60,020,000		35,870

¹ Refer to Note 11 for further detail on the capital distributions.

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 Interim Financial Statements
For the half year ended 31 December 2009**

	31 Dec 2009 \$'000	30 June 2009 \$'000
10 Reserves		
Balance at the beginning of the financial period	(931)	3,325
Effective portion of changes in fair value of cash flow hedges during the financial period ¹	-	(4,256)
Change in fair value of cash flow hedges transferred to profit or loss ¹	377	-
Balance at the end of the financial period	<u>(554)</u>	<u>(931)</u>

¹ Current period represents movements during the six month period to 31 December 2009. Prior period represents movements during the twelve months to 30 June 2009.

11 Distributions to Unitholders

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

Interim 31 December 2009	Distribution per Stapled Unit	Total amount \$'000	Date of payment	Tax deferred
30 September 2009	0.83¢	500 ¹	31 October 2009	100%
31 December 2009	0.83¢	500 ¹	26 February 2010 ²	100%
		<u>1,000</u>		

¹ This distribution was/is a distribution from contributed equity.

² Proposed payment date.

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

Interim 31 December 2008	Distribution per Unit	Total amount \$'000	Date of payment	Tax deferred
30 September 2008	2.0000¢	1,200 ³	31 October 2008	100%
31 December 2008	2.0000¢	1,201 ³	27 February 2009	100%
		<u>2,401</u>		

³ This distribution was a distribution from contributed equity.

12 Related parties

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

The relevant interest of each Director of the Responsible Entity holding stapled units in the stapled entity as at 31 December 2009 is as follows:

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

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

12 Related parties (continued)

	Half year ended	
	2009	2008
Responsible Entity fees and other transactions (continued)	\$'000	\$'000
<i>Trust establishment fee</i>		
As stated in the PDS, the Responsible Entity has agreed for the Trust to defer payment of part of the Trust establishment fee amounting to \$550,000 and has been included in Current liabilities – Trade and other payables as at 31 December 2009 of \$405,321 (30 June 2009: \$391,910).	-	-
<i>Responsible Entity fees</i>		
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 2009, the Responsible Entity has agreed for the stapled entity to defer payment of part of the Responsible Entity fees amounting to \$117,276 (half year ended 31 December 2008: \$146,439).		
Total deferred and accrued Responsible Entity fees by the stapled entity included in Current liabilities – Trade and other payables as at 31 December 2009 is \$767,920 (30 June 2009: \$667,606).	261	325
<i>Performance fees</i>		
The Responsible Entity is entitled to a 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 in 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 at 31 December 2009 (30 June 2009: \$Nil).	-	-
Total Responsible Entity fees and other transactions recognised in the Interim Statement of Comprehensive Income	261	325

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. STML, as Responsible Entity for Stockland Trust, has placed a standing order to acquire the Stapled Units that ANZ acquires under the LLF. As outlined in the PDS, STML or ANZ may terminate the LLF at any time or when STML holds more than 20% (12,004,000) of the total Stapled Units.

During the half year STML, as Responsible Entity of Stockland Trust, acquired 1,352,000 Stapled Units (year ended 30 June 2009: 2,490,000) in the stapled entity via the LLF.

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

12 Related parties (continued)

Other related party transactions (continued)

Units held by Stockland Trust

As at 31 December 2009, STML, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 10,244,000 Stapled Units (30 June 2009: 8,892,000) 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 \$241,834 (31 December 2008: \$211,000) 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 2009 is \$153,496 (30 June 2009: \$11,000).

Acquisition of the Parramatta Property

During the financial year ended 30 June 2007, the consolidated entity (i.e. the Trust and its controlled entities excluding SHT2) 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 Trust 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 \$32,032,000 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 has been provided to the Trust at the time of entering into the concurrent lease. As at 31 December 2009, \$19,000 is payable by Stockland to the Trust relating to this rental guarantee (30 June 2009: \$19,000).

Sale of the Belconnen property to Stockland Trust Management Limited

On 30 November 2009, the Trust completed the sale of its 50% interest in the Belconnen property for \$28,250,000 to STML. After taking into account straight-lining of rental income of \$6,000 and unwinding of the discount on the rental guarantee of the Belconnen property of \$45,000 for the half year ending 31 December 2009, the net loss on sale was \$25,000. After taking into account settlement adjustments, STML paid the Trust \$28,244,099 on 30 November 2009.

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

Notes to the Interim Financial Statements

For the half year ended 31 December 2009

12 Related parties (continued)

Other related party transactions (continued)

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 4.5 years from 31 December 2009 and when the underlying debt becomes due and payable (refer to Note 6).

During the half year ended 31 December 2009, 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 4.5 years from 31 December 2009 and when the underlying debt becomes due and payable).

The Trust paid \$168,000 to STML during the half year ended 31 December 2009 (\$Nil for the half year ending 31 December 2008) as a result of terminating the original interest rate swap agreement and entering into the new interest rate swap agreement. This payment was a consequence of the original interest rate swap having a mark-to-market derivative liability value of \$386,000 on the date of the termination (being 30 November 2009) which was payable by the Trust to STML. This was offset against the \$218,000 payable by STML to the Trust due to the new interest rate swap having a mark-to-market derivative liability value of \$218,000 on the date of entering into the new interest rate swap agreement.

13 Commitments

As at 31 December 2009, the stapled entity has no commitments (30 June 2009: \$Nil).

Non-cancellable operating lease receivable from investment property tenants

Non-cancellable operating lease commitments receivable:

	31 Dec 2009	30 June 2009
	\$'000	\$'000
Within one year	8,606	12,026
Later than one year but not later than five years	14,328	21,985
Later than five years	918	1,427
	23,852	35,438

14 Other Information

Life of the stapled entity

The stapled entity terminates on the earliest of:

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

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

Notes to the Interim Financial Statements For the half year ended 31 December 2009

15 Contingent liabilities and contingent assets

As at 31 December 2009 the stapled entity has no contingent liabilities (30 June 2009: \$Nil).

As at 31 December 2009 the stapled entity has no contingent assets. As at 30 June 2009 a contingent asset existed in relation to the rental guarantee for the Belconnen property. The Belconnen property is currently let to one tenant until 2012. Stockland 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 were to 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 was recognised as a present valued receivable as at 30 June 2009 with the remaining portion of \$1.8 million being treated as a contingent asset as at 30 June 2009. Due to the sale of the Belconnen property during the half year ended 31 December 2009, the benefit of the rental guarantee of \$1.8 million was received by the stapled entity during the half year ended 31 December 2009 and the contingent asset relating to the Belconnen property no longer remains with the stapled entity as at 31 December 2009.

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 interim Financial Report as at 31 December 2009.

17 Net current asset deficiency

In preparing this interim Financial Report, the Directors note that the stapled entity is in a net current asset deficiency position of \$45,000 (30 June 2009: deficit of \$83,194,000).

The Directors are satisfied the stapled entity can continue on a going concern basis after having regard to the following mitigating factors:

- the stapled entity has positive operating cash flows and positive operating cash flows are estimated for the next 12-month period from the date of this report;
- the stapled entity has no significant capital commitments at 31 December 2009;
- the stapled entity has a loan facility of \$60,810,000 of which \$5,657,000 is available to draw upon as at 31 December 2009.

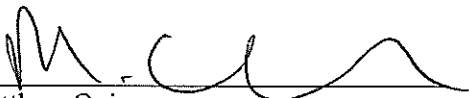
**Stockland Direct Office Trust No. 3 and its controlled entities (including
Stockland Holding Trust No. 2)
Directors' Declaration
For the half year ended 31 December 2009**

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

1. the Financial Statements and Notes set out on pages 6 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 as at 31 December 2009 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 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 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, 18 February 2010



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

The Stockland Direct Office Trust No.3 stapled entity (the Stapled Entity) comprises the consolidation of Stockland Direct Office Trust No.3 and its controlled entities, including Stockland Holding Trust No.2.

We have reviewed the accompanying interim financial report of the Stapled Entity, which comprises the interim balance sheet as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of accounting policies, other explanatory notes 1 to 17 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 interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Stapled Entity's financial position as at 31 December 2009 and its 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, including Stockland Holding Trust No.2, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

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

Conclusion

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

- (a) giving a true and fair view of the Stapled Entity's financial position as at 31 December 2009 and of its 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

18 February 2010