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)

Annual Financial Report 30 June 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 year ended 30 June 2010

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 Financial Report for the year ended 30 June 2010 and the Independent Auditor's Report thereon. The 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 year ended 30 June 2010 were approved by the Directors of SCPL, the Responsible Entity of the Trust and SHT2 on 19 August 2010. As SHT2 forms part of the stapled entity, the Annual Financial Report of SHT2 should be read in conjunction with the Financial Report of the stapled entity as at and for the year ended 30 June 2010.

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

Australian Accounting Standards Board ("AASB") Interpretation 1002: *Post-Date-of-Transition Stapling Arrangements* require one of the stapled entities of a stapled structure to be identified as the parent entity for the purpose of preparing a 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 have been referred to as "stapled entity" in the Financial Report.

Consolidated entity information

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

SHT2 Entity Information

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Report
For the year ended 30 June 2010

Directors

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

Peter Scott
Chairman (Non-Executive)
Appointed 22 November 2005

Mr Scott is a Director of Stockland Corporation Limited ("Stockland"). He is Chairman of Sinclair Knight Merz Holdings Limited and Chairman-elect of Perpetual Limited where he was appointed a Director on 31 July 2005. Mr Scott is a Director of Pilotlight, a non-profit making organisation and O'Connell Street Associates Pty Limited. He was appointed to the Advisory Board of Laing O'Rourke Australia in August 2008. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott is Chairman of the Human Resources Committee and Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds.

David Kent
(Non-Executive)
Appointed 9 August 2004

Mr Kent was appointed a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is Chairman of the S H Ervin Gallery Committee and a Director of the Royal Sydney Golf Club Foundation and The Australian Club Inc. Mr Kent spent the majority of his executive career at Morgan Stanley where he became Managing Director and Head of Investment Banking. He held positions in Sydney, Melbourne and New York for Morgan Stanley. Other positions held have included Chairman of Everest Financial Group, Director of the Everest Alternative Investment Trust, Executive General Manager of Axiss Australia and Senior Trade & Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent has been a Member of the Financial Sector Advisory Council and the Australian Chapter of the Alternative Investment Management Association. He has previously served as Deputy Chairman of the AGNSW Foundation and Chairman of the Brett Whiteley Foundation. He is a member of the Board Equity and Finance Committee of Sinclair Knight Merz and of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Anthony Sherlock
(Non-Executive)
Appointed 9 August 2004

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former non-executive Director of Austral Coal Limited and Sydney Attractions Group Limited, and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Audit and Risk Committee, the Stockland and Stockland Capital Partners Financial Services Compliance Committees and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Directors (continued)

Matthew Quinn
Managing Director – Stockland – (Executive)
Appointed 19 October 2000

Mr Quinn has an extensive background in commercial, retail, industrial, and residential property investment and development. He began his career in the United Kingdom as a Chartered Accountant and moved to Australia in 1987 with Price Waterhouse. In 1988 he joined the Rockingham Park Group, a substantial Western Australian private property group. Mr Quinn joined Stockland in 1999 and was appointed to his current role of Managing Director in October 2000. Mr Quinn held the position of National President of the Property Council of Australia from March 2003 until March 2005. He is a Fellow of the Australian Property Institute and the Royal Institute of Chartered Surveyors. He was appointed Chairman of Australian Business and Community Network Limited in November 2007. Mr Quinn is a member of the Corporate Responsibility and Sustainability Committee, a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Hugh Thorburn
Director – Stockland - (Executive)
Appointed 25 October 2007, retired on 26 February 2010

Mr Thorburn was appointed to the Board on 25 October 2007 as alternate Director for Mr Quinn. He is a Chartered Accountant and has held a number of senior financial and general management roles in Australian companies. Mr Thorburn was a Director of Stockland and a member of the Stockland Treasury Policy Committee until 26 February 2010.

Tim Foster
Chief Financial Officer – Stockland – (Executive)
Appointed 26 February 2010

Mr Foster was appointed an alternate Director for Mr Quinn on 26 February 2010. Mr Foster joined Stockland Group in February 2010 with 25 years of financial experience, including 15 years in the financial services industry. For the past 10 years he has held CFO roles in three major organisations including Colonial First State Investments, Challenger Financial Services and HBOS Australia. In his most recent role at HBOS Australia, Mr Foster led the Corporate Services Division and was also the Chairman of the HBOSA Assets & Liabilities Committee and the HBOSA Learning Council.With significant exposure to the property sector throughout his career, he was a Director of Colonial First State's property trust and managed the property accounting team for the trust. Mr Foster commenced his career with a major global accounting firm in the UK.

Stockland Capital Partners Limited Financial Services Compliance Committee

A Financial Services Compliance Committee has been set up to oversee the Compliance Plan approved by the Responsible Entity for the Trust.

The role of the Committee includes evaluation of the effectiveness of the Trust's Compliance Plans designed to protect the interests of Unitholders. The Compliance Plan has been approved by the Australian Securities and Investments Commission ("ASIC"). The Committee meets regularly and must report breaches of the law and Constitution to the Board which is required to report any material breach of the Compliance Plan to ASIC.

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

Mr T Williamson (Chair) – Non-Executive Director of Stockland (appointed December 2008)
Mr A Sherlock – Non-Executive Director
Mr P Hepburn – Executive Member

Stockland Capital Partners Limited Audit and Risk Committee

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

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

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

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

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

Mr T Williamson (Chair) – Non-Executive Director of Stockland
Mr A Sherlock – Non-Executive Director.

Principal activity

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 of $3,753,000 for the year ended 30 June 2010 (2009: $13,539,000). This loss includes a number of certain significant items, such as investment property revaluations and fair value loss on financial instruments that, in the opinion of Directors, need adjustment to enable Unitholders to obtain an understanding of the stapled entity's underlying profit (refer to the table below). The Directors will continue to monitor the performance of the stapled entity in light of the current market conditions.

The underlying profit for the year was $3,141,000 (2009: $4,140,000), reflecting a 24% decrease from the previous financial year.

Distributions paid or declared by the stapled entity to Unitholders during the financial year are set out in Note 17 of the Financial Statements.

The following table provides information to Unitholders that reconciles underlying profit to statutory loss. Underlying profit reflects statutory loss 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.

		Stapled	
		2010	2009
	Note	**$'000**	$'000
Underlying profit		**3,141**	4,140
Certain significant items:			
Net loss from fair value adjustment of investment properties	8	**(6,033)**	(17,748)
Unwinding of discount on rental guarantee	8	**45**	102
Fair value loss on financial instruments		**(830)**	(33)
Loss on sale of investment property		**(76)**	-
Loss for the financial year attributable to Unitholders		**(3,753)**	(13,539)

Review and results of operations (continued)

A downwards revaluation totalling $6,033,000 during the financial year, (2009: $17,748,000) was recognised in the stapled entity's Statement of Comprehensive Income. As at 30 June 2010, internal valuations were obtained for three of the stapled entity's investment properties and an independent valuation was obtained for one investment property resulting in the total portfolio being revalued downwards to $84,040,000. This represents a decrease of 29% on the 30 June 2009 total carrying value of $118,050,000, which includes the sale of the Belconnen investment property of $28,250,000. Refer to Note 8 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 12 for further detail on the refinanced loan facility.

Sale of 40 Cameron Avenue, Belconnen ACT

Approval from Unitholders was obtained 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 Belconnen property for $28,250,000 to STML as the Responsible Entity of Stockland Trust which, at the date of settlement held 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 12.

On 30 November 2009, $28,200,000 from 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 30 June 2010.

Update to the Trust's derivative financial instrument

To coincide with the pay down of the loan facility of $28,200,000 noted 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 12.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the stapled entity that, in the opinion of the Directors, occurred during the financial year under review.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Report
For the year ended 30 June 2010

Events subsequent to the end of the year

There has not arisen, in the interval between the end of the current financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the stapled entity, the results of operations, or the state of the affairs of the stapled entity, in future financial years.

Likely developments

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

Environmental regulation

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

Related parties

Stockland Trust Management Limited, as the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 10,949,000 Stapled Units in the stapled entity as at 30 June 2010 (2009: 8,892,000).

Interests of the Responsible Entity

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

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the stapled entity. The Responsible Entity may defer a portion of the annual fees each year. The Responsible Entity is entitled to recover all fees deferred either from Trust earnings or on winding up of the Trust. The Responsible Entity charges are set out in Note 20 of the Financial Report.

Directors' interests

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

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Report
For the year ended 30 June 2010

Indemnities and insurance of officers and auditors

Indemnification

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the stapled entity's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the stapled entity.

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

Insurance premiums

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

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

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

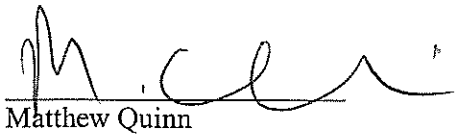
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The external auditor's independence declaration is set out on page 8 and forms part of the Directors' Report for the year ended 30 June 2010.

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn
Director
Dated at Sydney, 19 August 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 audit for the financial year ended 30 June 2010 there have been:

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

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

KPMG

Scott Fleming

Partner

Sydney

19 August 2010

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	Stapled 2010 $'000	Stapled 2009 $'000
Revenue and other income			
Rent from investment properties		**12,463**	13,747
Interest income		**97**	103
Unwinding of discount on rental guarantee		**45**	102
Total revenue and other income		**12,605**	13,952
Net loss from fair value adjustment of investment properties	8	**(6,033)**	(17,748)
Loss on sale of investment property		**(76)**	-
Investment property expenses		**(3,029)**	(3,114)
Finance costs relating to interest-bearing liabilities at amortised cost		**(5,626)**	(5,214)
Finance costs to related parties at amortised cost		**-**	(332)
Auditors' remuneration	4	**(116)**	(186)
Responsible Entity fees	20	**(442)**	(627)
Net loss from fair value adjustment on derivative financial instruments[1]		**(830)**	(33)
Other expenses		**(206)**	(237)
Total expenses		**(16,358)**	(27,491)
Loss for the financial year		**(3,753)**	(13,539)
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges	16	**-**	(4,256)
Change in fair value of cash flow hedges transferred to profit or loss	16	**438**	-
Other comprehensive income/(expense) for the year		**438**	(4,256)
Total comprehensive expense for the year		**(3,315)**	(17,795)
Loss for the financial year attributable to:			
Unitholders of the Trust (parent entity)		**(1,756)**	(10,666)
Unitholders of SHT2 (as non-controlling interest)		**(1,997)**	(2,873)
Loss for the financial year		**(3,753)**	(13,539)
Total comprehensive expense for the year attributable to:			
Unitholders of the Trust (parent entity)		**(1,318)**	(14,922)
Unitholders of SHT2 (as non-controlling interest)		**(1,997)**	(2,873)
Total comprehensive expense for the year		**(3,315)**	(17,795)

[1] During the financial 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 12 and 20 for further detail on the interest rate swap.

The above 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)
Balance Sheet
As at 30 June 2010

	Notes	Stapled 2010 $'000	Stapled 2009 $'000
Current assets			
Cash and cash equivalents	5	**2,798**	3,855
Trade and other receivables	6	**112**	133
Other assets	7	**841**	577
Total current assets		**3,751**	4,565
Non-current assets			
Investment properties	8	**82,084**	114,425
Trade and other receivables	9	**770**	927
Other assets	10	**754**	2,319
Total non-current assets		**83,608**	117,671
Total assets		**87,359**	122,236
Current liabilities			
Trade and other payables	11	**2,302**	3,322
Interest-bearing loans and borrowings	12	**-**	83,225
Other liabilities	13	**393**	1,212
Total current liabilities		**2,695**	87,759
Non-current liabilities			
Interest-bearing loans and borrowings	12	**54,806**	-
Other liabilities	14	**1,188**	964
Total non-current liabilities		**55,994**	964
Total liabilities		**58,689**	88,723
Net assets		**28,670**	33,513
Unitholders' funds			
Issued capital	15	**35,356**	36,884
Undistributed loss		**(8,663)**	(6,907)
Reserves	16	**(493)**	(931)
		26,200	29,046
Non-controlling interest		**2,470**	4,467
Total Unitholders' funds		**28,670**	33,513

The above 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)
Statement of Changes in Equity
For the year ended 30 June 2010

		Attributable to Unitholders of the stapled entity									
		Issued capital		Undistributed loss		Reserves		Non-controlling interest		Total Stapled Unitholders' Funds	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Stapled	**Notes**	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance		**36,884**	49,009	**(6,907)**	3,759	**(931)**	3,325	**4,467**	-	**33,513**	56,093
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	-	(4,256)	-	-	-	(4,256)
Change in fair value of cash flow hedges transferred to profit or loss		-	-	-	-	**438**	-	-	-	**438**	-
Loss for the financial year		-	-	**(1,756)**	(10,666)	-	-	**(1,997)**	(2,873)	**(3,753)**	(13,539)
Total comprehensive expense for the financial year		-	-	**(1,756)**	(10,666)	**438**	(4,256)	**(1,997)**	(2,873)	**(3,315)**	(17,795)
Transactions with Unitholders in their capacity as owners:											
Return of capital to Unitholders		-	(8,008)	-	-	-	-	-	-	-	(8,008)
Deferred establishment costs	15	**(28)**	(36)	-	-	-	-	-	-	**(28)**	(36)
Distributions paid/payable to Unitholders	17	**(1,500)**	(4,081)	-	-	-	-	-	(481)	**(1,500)**	(4,562)
Units issued by minority interest to Unitholders		-	-	-	-	-	-	-	7,821	-	7,821
Closing balance		**35,356**	36,884	**(8,663)**	(6,907)	**(493)**	(931)	**2,470**	4,467	**28,670**	33,513

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Cash Flow Statement
For the year ended 30 June 2010

	Notes	Stapled 2010 $'000	Stapled 2009 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**14,029**	14,949
Cash payments in the course of operations		**(6,228)**	(5,960)
Interest received		**97**	103
Interest paid		**(5,546)**	(5,340)
Net cash inflow from operating activities	18	**2,352**	3,752
Cash flows from investing activities			
Proceeds from sale of investment properties		**28,250**	-
Payment for investment properties		**(218)**	(32,080)
Net cash from/(utilised in) investing activities		**28,032**	(32,080)
Cash flows from financing activities			
(Repayment)/Proceeds from external party financing		**(28,200)**	29,160
Borrowing costs paid		**(492)**	(31)
Return of capital to Unitholders	15	**-**	(8,008)
Proceeds from issue of Stapled Units to Unitholders	20	**-**	8,008
Payment of transaction costs		**(168)**	(187)
Distributions paid to Unitholders	17	**(2,581)**	(4,674)
Net cash (utilised in)/from financing activities		**(31,441)**	24,268
Net decrease in cash and cash equivalents		**(1,057)**	(4,060)
Cash and cash equivalents at the beginning of the year		**3,855**	7,915
Cash and cash equivalents at the end of the year	5	**2,798**	3,855

The above 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 Financial Statements
For the year ended 30 June 2010

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 3 ("the Trust") is a Managed Investment Scheme domiciled in Australia. The Financial Report as at and for the financial year ended 30 June 2010 comprises of the Financial Report of the Trust and its controlled entities including SHT2, which together form the stapled entity ("stapled entity").

The Financial Report as at and for the financial year ended 30 June 2010 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity, on 19 August 2010.

(a) Statement of compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Financial Report of the stapled entity and the Trust comply with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

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

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

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to Note 2 for significant areas of estimation.

The accounting policies have been applied consistently for the purposes of this Financial Report.

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

(c) Basis of consolidation

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

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

1 Summary of significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

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

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

(d) Investments

Controlled entities

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

(e) Revenue recognition

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

Rent from investment properties

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

Interest income

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

Distributions

Revenue from distributions from controlled entities are recognised in the Statement of Comprehensive Income on the date the stapled entity's right to receive payment is established, being the date when they are declared by those entities.

(f) Operating segments

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

(g) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the Balance Sheet.

1 Summary of significant accounting policies (continued)

(g) Goods and services tax (continued)

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

(h) Income tax

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

(i) Derivative financial instruments

The stapled entity holds derivative financial instruments to hedge interest rate risk exposures arising from operational, financing and investment activities. In accordance with the Responsible Entity's treasury policy, the stapled entity does not hold or issue derivative financial instruments for trading purposes.

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

(j) Hedging

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

Cash flow hedge

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(k) Finance costs

Finance costs to external parties

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

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

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

(l) Cash and cash equivalents

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

(m) Impairment of assets

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

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

1 Summary of significant accounting policies (continued)

(n) Trade and other payables

Trade and other payables are stated at cost.

Distributions to Unitholders

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

(o) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis unless there is an effective fair value hedge of the borrowings, in which case the borrowings are carried at fair value and changes in the fair value is recognised in the Statement of Comprehensive Income.

(p) Provisions

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

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

Performance fee

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

(q) Investment properties

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

Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the Statement of Comprehensive Income in the period.

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

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

1 Summary of significant accounting policies (continued)

(q) Investment properties (continued)

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

Fair value

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

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

Subsequent costs

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

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is included in the Statement of Comprehensive Income in the year of disposal.

(r) New Accounting Standards

Certain new or amended Accounting Standards have been published that are not mandatory for this reporting period. The impact of these new or amended standards (to the extent relevant to the stapled entity) and interpretations are set out below.

AASB 2009-5 "Further amendments to Australian Accounting Standards arising from the Annual Improvements Process" affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments will become mandatory for the Stapled Entity's 30 June 2011 Financial Report.

These recently issued or amended standards are not expected to have a significant impact on the amounts recognised or disclosures made in these Financial Statements when restated for the application of these new or amended Accounting Standards.

(s) 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:

The revised Corporations Act 2001, as amended by the Corporations Amendment Regulations 2010 (No.6) no longer require an entity to prepare financial statements in relation to the parent entity itself, provided the entities prepares consolidated financial statements. When parent entity financial statements are not prepared, key parent entity disclosures are required by way of a separate note. As a result of this change, Stockland Direct Office Trust No.3 has not prepared separate parent entity financial statements and certain parent entity disclosure as included in Note 25.

1 Summary of significant accounting policies (continued)

(s) Changes in Accounting Standards (continued)

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.

Revised AASB 140 "Investment Property" ("AASB 140") requires investment property under construction for future use as investment property to be measured at fair value with changes in fair value being recognised in the Statement of Comprehensive Income when fair value can be determined reliably. However, where fair value cannot be determined reliably, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable. As such there is no impact on the amounts recognised or disclosures made by the Stapled Entity on adopting the revised standard.

Revised AASB 123 "Borrowing Costs" ("AASB 123") removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Stockland Direct Office Trust No.3's accounting policy is to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. As such there is no impact on the amounts recognised or disclosures made by the Stapled Entity on adopting the revised standard.

Revised AASB 3 "Business Combinations" ("AASB 3") changes the application of acquisition accounting for business combinations and the accounting for non-controlling (formerly "minority") interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the Statement of Comprehensive Income; measurement of non-controlling interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutual entities. As the revised standard applies prospectively, there is no impact on previous acquisitions made by the Stapled Entity on adoption of the revised standard.

AASB 127 "Consolidated and Separate Financial Statements" ("AASB 127") changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in the Statement of Comprehensive Income; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. As the revised standard applies prospectively, there is no impact on the amounts recognised or disclosures made by the Stapled Entity on adoption of the revised standard.

"Amendments to AASB 7 Financial Instruments: Disclosures" requires disclosures of financial instruments measured at fair value to be based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements. The impact of the change resulted in disclosure of the Stapled Entity's financial instruments measured at fair value to be disclosed in each of the three levels as well as a reconciliation of the movement in the Level 3 financial instruments during the financial year. Refer to Note 19(d).

(t) Comparatives

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

2 Accounting estimates and assumptions

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

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

(a) Key sources of estimation uncertainty

Estimates of fair value of investment property

The best evidence of fair value is current prices in an active market for similar investment properties. Where such information is not available, the Responsible Entity determines the property's value within a range of reasonable fair value estimates. In making its judgement, the Responsible Entity considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

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

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

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

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

In determining the fair value, the capitalisation of net market income method and discounting future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties. If such prices are not available then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

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

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

2 Accounting estimates and assumptions (continued)

(a) Key sources of estimation uncertainty (continued)

Estimates of performance fee expense

A performance fee is payable to the Responsible Entity if certain out performance is achieved by the stapled entity. The fee is 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 period and is capped at 0.46125% p.a. on the closing gross asset value of the stapled entity. The stapled entity has not provided for a performance fee as at 30 June 2010. Refer Note 20 for further detail.

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

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

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

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

The performance fee, if any, is recognised in the Statement of Comprehensive Income on an accruals basis. The performance fee is calculated in accordance with the Constitution. This involves the assumptions set out below.

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

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

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

It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the stapled entity.

The stapled entity has then applied an appropriate discount rate to reflect the projected life of the fund.

Assumptions underlying the Responsible Entity's estimates of fair value of derivatives

The fair value of derivatives is determined using a generally accepted pricing model based on a discounted cash flow analysis using assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 19.

3 Operating segments

The stapled entity and the Trust operate solely in the business of investment management in Australia.

		Stapled	
		2010	2009
		$	$
4	**Auditors' remuneration**		
	Audit services to KPMG Australia		
	Audit and review of the Financial Reports	**65,000**	112,500
	Compliance audit services	**13,000**	30,000
		78,000	142,500
	Other services to KPMG Australia		
	Taxation compliance services	**38,400**	43,593
	Total remuneration	**116,400**	186,093

		Stapled	
		2010	2009
		$'000	$'000
5	**Current assets – Cash and cash equivalents**		
	Cash at bank and on hand	**2,798**	3,855

The weighted average interest rate for cash at bank and on hand as at 30 June 2010 was 3.46% p.a. (2009: 4.74% p.a.)

Cash includes an amount of $771,497 in a designated bank account held as a set off account against the borrowings of the Trust as part of the Trust's loan covenant requirements.

6	**Current assets – Trade and other receivables**		
	Straight-line of rental income	**43**	43
	Other receivables	**69**	90
		112	133
7	**Current assets – Other assets**		
	Rental income support	7	19
	Lease incentives	**382**	317
	Other assets	**452**	241
		841	577

8 Non-current assets – Investment properties

Description	Acquisition date	Original purchase price $'000	Cost including additions $'000	Independent Valuation Date	Independent Valuation $'000	Capitalisation rate 30 Jun 2010 %	Capitalisation rate 30 Jun 2009 %	Weighted average lease term[5] 2010 Years	Weighted average lease term[5] 2009 Years	Stapled Book value 2010 $'000	Stapled Book value 2009 $'000
40 Cameron Avenue, Belconnen, ACT[1,3]	June 2007	34,912	-	June 2009	28,250	-	8.25	-	2.68	-	28,250
541 St Kilda Road, Melbourne, VIC[3]	June 2007	30,162	30,259	December 2009	25,200	**9.50**	9.00	**2.46**	2.93	**25,227**	25,400
222 Russell Street, Melbourne, VIC[3]	June 2007	16,879	16,883	December 2009	13,000	**8.50**	9.00	**4.69**	1.10	**13,143**	14,100
181 Great Eastern Highway, Belmont, WA[4]	June 2007	13,756	13,804	June 2010	14,200	**8.75**	10.00	**1.17**	2.17	**14,200**	16,300
75 George Street, Parramatta, NSW[2,4]	June 2007	39,328	39,595	December 2009	31,500	**9.00**	8.50	**2.60**	3.60	**31,470**	34,000
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										**84,040**	118,050
Less amounts classified as:											
- Trade and other receivables										**(813)**	(970)
- Other assets										**(1,143)**	(2,655)
Total Investment properties										**82,084**	114,425

[1] The Trust completed the sale of its 50% interest in Belconnen for $28,250,000 to STML during the financial year. Refer to Note 20 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 20.

[3] These properties are leasehold properties.

[4] These properties are freehold properties.

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

	Stapled	
	2010	2009
	$'000	$'000

8 Non-current assets – Investment properties (continued)

Reconciliation – investment properties

Direct investments and controlled entities

Carrying amount at the beginning of the financial year	**114,425**	133,293
Disposals[1]	**(26,498)**	-
Net loss on fair value adjustments of investment properties	**(6,033)**	(17,748)
Unwinding of discount on rental guarantee	**45**	102
Expenditure capitalised	**190**	48
Transfer to other assets	**(45)**	(1,270)
Carrying amount at the end of the financial year	**82,084**	114,425

[1] Relates to the disposal of the Trust's 50% interest in Belconnen for $28,250,000 to Stockland Trust Management Limited ("STML") on behalf of Stockland Trust 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 20 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 sale being 30 November 2009.

9 Non-current assets – Trade and other receivables

Straight-line of rental income	**770**	927

10 Non-current assets – Other assets

Rental income support	**-**	1,542
Lease incentive	**754**	777
	754	2,319

11 Current liabilities – Trade and other payables

Trade payables and accruals	**2,205**	2,138
Goods and services ("GST") payable	**79**	86
Distribution payable	**-**	1,081
Interest payable on loan facility	**18**	17
	2,302	3,322

	Stapled	
	2010	2009
	$'000	$'000

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

Current liabilities – Interest-bearing loans and borrowings

Loan facility	-	83,353
Less: attributable transaction costs	-	(128)
Balance Sheet carrying amount at amortised cost	-	83,225

Non-current liabilities – Interest-bearing loans and borrowings

Loan facility	**55,153**	-
Less: attributable transaction costs	**(347)**	-
Balance Sheet carrying amount at amortised cost	**54,806**	-

Loan facility

The Trust has a $60,810,000 (2009: $89,010,000) loan facility agreement, comprising a property facility and capital expenditure facility, with Australia and New Zealand Bank ("ANZ"). As at 30 June 2010, $55,153,000 has been drawn on the property facility (2009: $83,353,000).

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 property facility for the year ended 30 June 2010 was 6.59% p.a. (2009: 6.23% p.a.). The property facility has been hedged through an interest rate swap contract (refer to paragraphs below). Taking into account the interest rate swap in place, the weighted average interest rate on the property facility for the year ended 30 June 2010 is 8.43% p.a. (2009: 6.24% p.a.).

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

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 30 June 2010. Refer to Note 8 and 20 for further detail on the sale of Belconnen property.

Interest rate swap contract

The Responsible Entity, on behalf of the stapled entity, has entered into an interest rate swap contract with Stockland Trust Management Limited ("STML") to manage cash flow risks associated with the interest rates on the loan facility provided by ANZ which is floating. The interest rate swap allows the stapled entity 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 years from 30 June 2010 or 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 on behalf of Stockland Trust 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 years from 30 June 2010 or when the underlying debt becomes due and payable).

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

Interest rate swap contract (continued)

The Trust paid $168,000 to STML during the financial year ended 30 June 2010 ($Nil for the year ended 30 June 2009) as a result of terminating the original interest rate swap agreement and entering into a new interest rate swap agreement. Refer to Note 20 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 Statement of Comprehensive Income as "Net 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.

	Stapled	
	2010	2009
	$'000	$'000
13 Current liabilities – Other liabilities		
Deferred consideration – Opening	**-**	32,032
Settlement of deferred consideration	**-**	(32,032)
Deferred consideration – Closing	**-**	-
Other liabilities	**393**	1,212
	393	1,212

During the financial year ended 30 June 2007, the consolidated entity entered into a deed of agreement with SHT2 to acquire the Parramatta property. The deferred consideration relates to an amount that was paid to SHT2 on 18 August 2008 in connection with the deed of agreement. Refer to Note 20.

14 Non-current liabilities – Other liabilities		
Fair value of financial instrument	**1,188**	964

15 Units on issue

	Stapled		Stapled	
	2010	2009	**2010**	2009
	No. of units	No. of units	**$'000**	$'000
Stapled units on issue	**60,020,000**	60,020,000	**35,356**	36,884

Date	**Details**	**No. of units**	**Issue price**	**$'000**
Movement in stapled units				
1 July 2008	Opening balance	60,020,000		49,009
18 August 2008	Return of capital to Unitholders for Stapled 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)**
31 December 2009	Distribution paid from contributed equity	-	-	**(500)**
31 March 2010	Distribution paid from contributed equity	-	-	**(500)**
30 June 2010	Deferred establishment costs	-	-	**(28)**
30 June 2010	Closing balance	**60,020,000**		**35,356**

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	
	2010	2009
	$'000	$'000

16 Reserves

Balance at the beginning of the financial year	**(931)**	3,325
Effective portion of changes in fair value of cash flow hedges during the financial year	-	(4,256)
Change in fair value of cash flow hedges transferred to profit or loss	**438**	-
Balance at the end of the financial year	**(493)**	(931)

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. Refer accounting policy at Note 1(j).

17 Distributions to Unitholders

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

	Distribution per stapled unit	Total amount $'000	Date of payment	Tax deferred
2010				
30 September 2009	**0.83330¢**	**500**[1]	30 October 2009	100%
31 December 2009	**0.83330¢**	**500**[1]	26 February 2010	100%
31 March 2010	**0.83330¢**	**500**[1]	30 April 2010	100%
		1,500		

[1] This distribution was a distribution from contributed equity.

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

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2009				
30 September 2008	2.0000¢	1,200[1]	31 October 2008	100%
31 December 2008	2.0000¢	1,201[1]	27 February 2009	100%
31 March 2009	1.8000¢	1,080[1]	30 April 2009	100%
30 June 2009	1.0000¢	600[1,2]	28 August 2009	100%
		4,081[3]		

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

[2] In addition to this distribution, Stapled Unitholders are also entitled to the distribution from SHT2 of $481,000. Refer to the separate accounts of SHT2 for the year ended 30 June 2010 for further detail.

[3] In total, distributions to Stapled Unitholders recognised in the financial year by the stapled entity including distributions made by SHT2 to Stapled Unitholders were $4,562,000.

18 Notes to the Cash Flow Statement

Reconciliation of loss for the financial year to net cash inflow from operating activities:

	Stapled	
	2010 $'000	2009 $'000
Loss for the financial year	**(3,753)**	(13,539)
Amortisation of borrowing costs	**273**	208
Amortisation of incentives	**361**	277
Unwinding of discount on rental guarantee	**(45)**	(102)
Loss from sale of investment property	**76**	-
Net loss from fair value adjustment of investment properties	**6,033**	17,748
Net loss from fair value adjustment on derivative financial instruments	**830**	33
Net cash inflow from operating activities before change in assets and liabilities	**3,775**	4,625
(Increase)/decrease in trade and other receivables and other assets	**(661)**	407
Decrease in trade and other liabilities	**(762)**	(1,280)
Net cash inflow from operating activities	**2,352**	3,752

19 Financial instruments

(a) Financial risk and capital management

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

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

Capital management

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

The Responsible Entity can alter the capital structure of the stapled entity by adjusting the amount of distributions paid to Unitholders, selling assets to reduce debt, and adjusting the timing of capital expenditure. In this context, the stapled entity considers capital to include interest-bearing loans and borrowings and Unitholders' funds.

Management monitor the capital structure of the stapled entity through the loan-to-value ratio. The ratio is calculated as the amount of the stapled entity's loan facility drawn divided by the latest valuation of the stapled entity's properties. The LVR as at 30 June 2010 is 64.8% (2009: 70.6%) which is in compliance with the LVR covenant requirement of 65% (2009: 67%).

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the stapled entity.

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

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

As at 30 June 2010 and 30 June 2009, there were no significant financial assets that were past due. Additionally, there were no significant financial assets that would otherwise be past due whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the stapled entity's maximum exposure to credit risk in relation to these assets. Refer to Note 5, 6 and 7 for a breakdown of these financial assets.

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates.

The income and the associated operating cash flows of the stapled entity's financial assets are substantially independent of changes in market interest rates.

The Responsible Entity, on behalf of the stapled entity, manages interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged percentage at 30 June 2010 was 100% (2009: 104%).

Under the interest rate swaps, the Responsible Entity agrees with other parties to exchange, at specified intervals, generally quarterly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to Note 19(b) for further details about the interest rate swap contracts.

Sensitivity analysis

The following sensitivity analysis shows the effect on the stapled entity's Statement of Comprehensive Income and equity if market interest rates at balance date had been 100 basis points higher/lower (2009: 25 basis points) with all other variables held constant.

An increase of 100 basis points (2009: 25 basis points) in market interest rate would result in an increase in the stapled entity's Statement of Comprehensive Income of $1,283,099 (2009: $31,000) and an increase in the stapled entity's equity of $Nil (2009: $852,000). A decrease of 100 basis points (2009: 25 basis points) in market interest rate would result in a decrease in the stapled entity's Statement of Comprehensive Income of $1,262,828 (2009: $31,000) and a decrease in the stapled entity's equity of $Nil. (2009: $863,000).

Liquidity risk

Liquidity risk is the risk that the stapled entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The stapled entity aims at maintaining flexibility in funding by keeping sufficient committed credit lines available. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The stapled entity manages liquidity risk through monitoring the maturity of its debt portfolio. As at 30 June 2010, the current weighted average debt maturity is 2.0 years (2009: 1.0 years). Refer to Note 12 for details of the loan facility.

The table on the next page reflects all contractual maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows and may not equate to carrying amounts of financial liabilities in the Balance Sheet.

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Liquidity risk (continued)

Contractual maturity of financial liabilities including derivatives and estimated interest

	Contractual cash flows $'000	1 year or less $'000	2010 1-3 years $'000	3-5 years $'000	5+ years $'000
Stapled					
Trade and other payables	**(2,138)**	**(2,138)**	-	-	-
Loan facility[1]	**(61,616)**	**(3,191)**	**(58,425)**	-	-
Interest rate swap	**(1,307)**	**(515)**	**(797)**	**5**	-
	(65,061)	**(5,844)**	**(59,222)**	**5**	-

			2009		
Stapled					
Trade and other payables	(1,966)	(1,966)	-	-	-
Distribution payable	(1,081)	(1,081)	-	-	-
Loan facility[1]	(86,219)	(86,219)	-	-	-
Interest rate swap	(691)	(1,994)	(244)	1,547	-
	(89,957)	(91,260)	(244)	1,547	-

[1] The loan facility is due to mature on 27 June 2012. Refer to Note 12 for details.

19 Financial Instruments (continued)

(b) Derivative financial instruments used by the stapled entity

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

Interest rate swap contract

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

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

The swap covers 100% of the loan principal outstanding and is timed to expire as the loan repayment falls due. The fixed interest rate is 6.35% p.a. and the variable rate is the 90 day bank bill rate which at the last reset date to 30 June 2010 was 5.03% p.a. plus a margin of 0.60% p.a.

As at 30 June 2010, the notional principal amounts and period of expiry of the interest rate swap contract is as follows:

	Stapled	
	2010	2009
	$'000	$'000
1-5 years	**55,153**	86,353
Over 5 years	**-**	-

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

The original swap was designated as an effective cash flow hedge in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" ("AASB 139") and was tested for effectiveness. As at 30 June 2009, the swap was considered to be effective and accordingly the effective portion of the change in fair value was recognised in Unitholders' funds. As a new swap has been entered into, the cash flow hedge reserve will be amortised over the term of the original swap.

As at 30 June 2010, for the current swap, Stockland Direct Office Trust No.3 did not apply cash flow hedge accounting and the change in the fair value of the interest rate swap contract is recognised in the Statement of Comprehensive Income. Refer accounting policy at Note 1(j).

At balance date, the swap contract had a fair value of $1,188,000 (2009: $964,000) included in Non-current liabilities – Other liabilities on the Balance Sheet.

The stapled entity does not hold derivative financial instruments for speculative purposes.

(c) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, loan to related entity, trade and other payables, the loan facility and interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2010.

The fair value of the interest rate swap has been determined in accordance with generally accepted pricing models by discounting the expected future cash flows at prevailing market interest rates.

The interest rate swap has been accounted for on the Balance Sheet at fair value. The interest rate swap has been deemed to be an ineffective hedge. Accordingly, the ineffective portion of the change in the fair value of the interest rate swap contract is recognised in the Statement of Comprehensive Income.

19 Financial Instruments (continued)

(d) Fair value hierarchy

The stapled entity has adopted the amendments to the AASB 7, effective 1 July 2009. This requires the stapled entity to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

The following hierarchy is used for determining and disclosing the fair value of SDOT3's financial instruments, by valuation method:

- Level 1: quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3: inputs for the financial asset or liability that are not based on observable market data.

The determination of what constitutes "observable" requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the stapled entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Financial liabilities	2010 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Financial Instrument	1,188	-	1,188	-
	1,188	-	1,188	-

20 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 stapled units in the stapled entity and the Trust.

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

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

Responsible Entity fees and other transactions	Stapled 2010 $'000	2009 $'000
Trust establishment fee		
As stated in the PDS, the Responsible Entity has agreed for the Trust to defer payment of part of the Trust establishment fee amounting to $550,000 and has been included in Current liabilities – Trade and other payables as at 30 June 2010 (2009: $391,910)	-	-
Responsible Entity fee		
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.	442	627
For the year ended 30 June 2010, the Responsible Entity has agreed for the stapled entity and Trust to defer payment of part of the Responsible Entity fees amounting to $203,835 (2009: $282,140).		
Total deferred and accrued Responsible Entity fees by the stapled entity and the Trust included in Current liabilities – Trade and other payables as at 30 June 2010 is $829,751 (2009: $667,606).		
Performance fee		
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 30 June 2010 (2009: $Nil).	-	-
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	**442**	627

20 Related parties (continued)

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 financial year, STML, as Responsible Entity of Stockland Trust, acquired 2,057,000 Stapled Units (2009: 2,490,000) in the stapled entity via the LLF.

Units held by Stockland Trust

As at 30 June 2010, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 10,949,000 Stapled Units in the stapled entity (2009: 8,892,000).

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 $549,000 (2009: $112,000) was paid/payable to the property manager during the financial year. Total accrued property management fees by the stapled entity included in Current liabilities – Trade and other payables as at 30 June 2010 is $332,000 (2009: $11,000).

Stockland Holding Trust No. 2

Reimbursement of fit-out contribution

During the financial year ended 30 June 2007, SHT2 agreed to reimburse the Trust for fit-out contributions that are paid to a tenant of the Parramatta property. In July 2008, the Trust (then the beneficial owner of the Parramatta property) received $999,293 from SHT2.

Interest-bearing loan from SDOT No. 3

As at 30 June 2010, SHT2 has a loan payable to the Trust of $32,032,000 (2009: $32,032,000). Interest was payable to the Trust annually in arrears. The weighted average interest rate on the loan for the period to 30 June 2010 was 7.75% p.a. (2009: 6.50% p.a.). During the year ended 30 June 2010, $2,481,000 (2009: $1,809,000) was received from SHT2.

The loan which was due to mature on 27 June 2010 has been extended to 27 June 2012.

This is eliminated on consolidation.

20 Related parties (continued)

Other related party transactions (continued)

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 has been provided to the Trust at the time of entering into the concurrent lease.

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.

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 12).

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 4 years from 30 June 2010 and when the underlying debt becomes due and payable).

The Trust paid $168,000 to STML during the financial year ended 30 June 2010 (2009: $Nil) 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

20 Related parties (continued)

Other related party transactions (continued)

Interest rate swap agreement with Stockland Trust Management Limited (continued)

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.

21 Controlled entities

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

Controlled entities of Stockland Direct Office Trust No. 3
SDOT 3 Property No. 1 Trust
SDOT 3 Property No. 2 Trust
SDOT 3 Property No. 3 Trust
SDOT 3 Property No. 4 Trust
SDOT 3 Property No. 5 Trust

22 Commitments

As at 30 June 2010, the stapled entity has no commitments (2009: $Nil).

Non-cancellable operating lease receivable from investment property tenants

Non-cancellable operating lease commitments receivable:

	Stapled	
	2010	2009
	$'000	$'000
Within one year	**9,535**	12,026
Later than one year but not later than five years	**17,305**	21,985
Later than five years	**401**	1,427
	27,241	35,438

23 Other information

Life of the Trust

The Trust terminates on the earliest of:

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

24 Contingent liabilities and contingent assets

As at 30 June 2010, the stapled entity has no contingent liabilities (2009: $Nil).

25 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2010 the parent company of the Consolidated Entity was Stockland Direct Office Trust No.3

	Stapled	
	2010	2009
	$'000	$'000
Results of the parent entity		
Profit/(loss) for the financial year	**635**	(9,578)
Other comprehensive income	**-**	-
Total comprehensive income for the year	**635**	(9,578)
Financial position of the parent entity at year end		
Current assets	**34,616**	95,783
Total assets	**82,695**	111,829
Current liabilities	**1,296**	85,005
Total liabilities	**57,290**	85,969
Net assets	**25,405**	25,860
Total Unitholders funds of the parent entity comprising of:		
Issued capital	**35,356**	36,884
Undistributed loss	**(9,458)**	(10,093)
Cash flow hedge reserve	**(493)**	(931)
Total Unitholder's funds	**25,405**	25,860

Parent Entity contingencies
There are no contingencies with the parent entity as at 30 June 2010 (2009: $Nil).

Parent entity capital commitments
The parent entity has not entered into any capital commitments as at 30 June 2010 (2009: $Nil).

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

26 Events subsequent to the end of the year

There have been no events subsequent to the end of the year to the date of this report which, in the opinion of the Directors, would have a material effect on the stapled entity's or Trust's Financial Statements as at 30 June 2010.

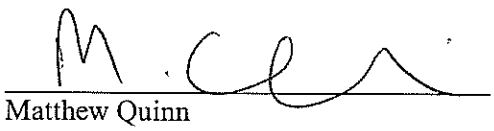
Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2
Directors' Declaration
For the year ended 30 June 2010

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 9 to 38 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Trust's and stapled entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. at the date of this declaration there are reasonable grounds to believe that the Trust and the stapled entity will be able to pay their debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2010 in accordance with the provisions of the Trust Constitution as amended dated 13 March 2007; and
5. the Register of Unitholders has, during the financial year ended 30 June 2010, been properly drawn and maintained so as to give a true account of the Unitholders of the Trust.

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn
Director
Dated at Sydney, 19 August 2010

KPMG

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

Stockland Direct Office Trust No.3 stapled entity (Stapled Entity) comprises the consolidation of Stockland Direct Office Trust No. 3 (the Trust) and the entities it controlled at year's end or from time to time during the financial year, including Stockland Holding Trust No. 2.

We have audited the accompanying consolidated financial report of the Stapled Entity, which comprises the balance sheet as at 30 June 2010, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 26 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Stapled Entity's financial position, and of its performance.

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Stockland Direct Office Trust No.3 is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Stapled Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

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

KPMG

Scott Fleming
Partner

Sydney

19 August 2010