



STOCKLAND DIRECT OFFICE TRUST NO. 2 (“SDOT2” or “the Trust”)

ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES

Updated March 2010

Introduction

The following document has been prepared for SDOT2 for the purposes of ASIC Regulatory Guide 46. All figures are as at 31 December 2009 unless stated otherwise. For further information please refer to the Interim Financial Statements on our website <http://www.stockland.com.au/UnlistedPropertyFunds>.

Disclosure Principle 1 : Gearing Ratio

Gearing ratio: **58%**

The gearing ratio indicates the extent to which a scheme's assets are funded by interest bearing liabilities. It gives an indication of the potential risks the scheme faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values.

Disclosure Principle 2 : Interest Cover

Interest Cover Ratio: **1.6 times**

Interest cover measures the ability of the scheme to service interest expense on debt from earnings. It is therefore a critical indication of a scheme's financial health and key to analysing the sustainability and risks associated with the scheme's level of borrowing. The lower the interest cover, the higher the risk that the scheme will not be able to meet its interest payments.

An Interest Cover Ratio of 1.6 indicates that SDOT2 is able to meet its interest payments based on the 31 December 2009 Interim Financial Statements. Please note, the Interest Cover Ratio above varies from the ratio provided to financiers. The variation is due to different calculations required by ASIC and the financiers.

Disclosure Principle 3: Scheme Borrowing

The following provides a summary of SDOT2's borrowing arrangements.

	Limit \$(m)	Undrawn Amount \$(m)	Facility Expiry	Interest Rate (%)	Hedging Expiry
Term Loan	103.2	0	June 2013	6.45%*	June 2013
CapEx	3.0	3.0	June 2013	BBSY + 0.325%	June 2013
Overdraft	1.0	1.0	June 2013	BBOR + 0.325%	June 2013
Total Facility	107.2	4.0	June 2013		

* Includes the line fee and margin

Loan Covenants

All loan covenants were complied with as at 31 December 2009. A breach of a loan covenant may result in the lender being able to require immediate repayment of the loan or impose a freeze on further draw-downs on the credit facility.

Investors should note that they will rank behind the creditors of the Trust. This means if the lender enforces its security over SDOT2 then the lender will be reimbursed prior to investors receiving their interest.

Disclosure Principle 4 : Portfolio Diversification

Investment Strategy

The Trust aims to deliver regular, tax effective income returns to investors with the opportunity for capital growth over time. The Trust has a 49 per cent interest in Macquarie Park Trust (“MPT”) which owns Optus Headquarters. We do not expect to make any other acquisitions or divestments over the term of the Trust. Prior to 31 December 2012, Stockland Capital Partners Limited (“SCPL”), as the Responsible Entity of SDOT2, will convene a meeting of investors to consider the ongoing investment strategy.

Property Valuation

Property	Optus Headquarters, Macquarie Park
Valuation*	\$171.5m
Date of Valuation	31 December 2009
Valuer	Jones Lang LaSalle
Cap rate	7.50%
Occupancy	100%

* Represents SDOT2's 49% interest in Optus Headquarters.

Geographic Spread

Diversification	Geographic Spread	Sector Spread
	NSW	Office
By Value	100%	100%
By Number	100%	100%

Occupancy and Top 5 Tenants

The property has 100 per cent occupancy as at 31 December 2009.

Top 5 Tenants	% of Income	% of NLA
Optus Headquarters	100%	100%

Lease Expiry Profile by Area



Weighted average lease expiry by income (yrs): 12.5 at 31 December 2009.

Disclosure Principle 5 : Valuation Policy

SDOT2's policy is for the property to be independently valued at least every three years by a Certified Practising Valuer registered with the Australian Property Institute. A directors' valuation is undertaken at every other reporting date when an external valuation does not occur (i.e. 30 June and 31 December). Where the internal valuation results in a variance outside the range -5 per cent to 5 per cent of a property's built up book value, an external valuation is required. In addition, where the variance in the built up book value is outside the range -5 per cent to 5 per cent of the most recent independent valuation, a new external valuation is required.

A further requirement in addition to the policy above occurred for 30 June 2008, 31 December 2008, 30 June 2009 and 31 December 2009. Where the internal valuation produces a variance in the range of -2 per cent to -5 per cent of the built up book value, the property may be subject to an external valuation at the directors' discretion.

Disclosure Principle 6: Related Party Transactions

Related party transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. Investors should therefore be able to assess whether responsible entities take an appropriate approach to related party transactions. A significant number and value of such transactions may mean that investors should consider the financial position of the related group as a whole and the risk of potential conflicts of interest.

Related party transactions

- Stockland Trust Management Limited ("STML") as the responsible entity of Stockland Trust, a related party of SCPL, held 13,931,476 Instalment Receipts in SDOT2 at 31 December 2009.
- STML, as responsible entity for Stockland Trust, held 31 per cent of units in MPT at 31 December 2009.
- SCPL does not hold any Instalment Receipts in SDOT2.
- Three SCPL Directors held SDOT2 Instalment Receipts at 31 December 2009. Mr David Kent held 150,000 Receipts, Mr Matthew Quinn held 25,000 Receipts and Mr Peter Scott held 25,000 Receipts.

Fees to related parties

Type	Amount	When Paid?
Responsible Entity Fee	\$0.406m for the half year ended 31 December 2009, representing 0.45% p.a. of the gross assets value of the Trust.	Payable to SCPL from SDOT2's assets quarterly in arrears.
Performance Fee	Nil provided for at 31 December 2009 as calculated on a sliding scale provided that the Trust's final distribution per unit exceeds investors' original investment by 6%.	Payable upon SDOT2 termination.
Please refer to Section 9 of the Product Disclosure Statement.		
Property Management Fee	\$0.135m for the half year ended 31 December 2009, representing property management services including on site property management and leasing fees.	Payable quarterly in arrears by Macquarie Park Trust to Stockland Property Management Limited.

Policy and Ongoing Monitoring

A corporate governance framework has been established to protect investors' interests. This framework includes:

- Documented and formally approved and executed agreements between Stockland Corporation, STML and SDOT2 by separate independent legal advice obtained by SCPL on behalf of SDOT2;
- Two of SDOT2's Directors are independent of Stockland;
- Monitoring of compliance with SDOT2's obligations by the Compliance Committee;
- A six monthly review and full year audit by the scheme auditor and full year audit by the compliance plan auditor
- A requirement for the approval of all related party transactions by the SCPL Board to be by unanimous vote, including the independent directors;
- Acting in accordance with our conflicts of interest policy which is made available to all staff. The policy is reviewed on an ongoing basis to ensure that Stockland maintains adequate conflicts management arrangements.

The SCPL Directors have a fiduciary duty to act in the best interests of investors in relation to decisions affecting SDOT2.

Disclosure Principle 7 : Distribution Practices

Some unlisted property schemes make distributions to investors from capital and/or unrealised gains where cash is available from either within the Trust or from borrowings.

Source of Distributions

Distributions for the half year ended 31 December 2009 for SDOT2 were funded 94 per cent from realised income and 6 per cent from capital with the capital component funded from available cash. Going forward it is anticipated that distributions will continue to be funded partly from capital with the capital component to be funded from available cash. This approach is considered sustainable over the next 12 months however SCPL may review and adjust accordingly.

Disclosure Principle 8: Withdrawal Arrangements

Once an application for units has been received, investors are unable to redeem their units until SDOT2 terminates. Investors may however sell their Instalment Receipts by participating in the Limited Liquidity Facility ("LLF") offered by Westpac, or through the off market transfer process.

Limited Liquidity Facility

The LLF is a facility which Westpac has agreed to provide to investors of SDOT2. The LLF is available on a quarterly basis and provides investors with an opportunity to sell their units prior to the termination date, subject to certain conditions.

Westpac has agreed to acquire up to 1,000,000 Instalment Receipts in SDOT2 per quarter from investors seeking to realise their Instalment Receipts. Instalment Receipts are acquired at a 2.5 per cent discount to Net Tangible Assets ("NTA") per unit less transaction costs. STML has placed a standing order with Westpac to acquire a maximum of 1,000,000 Instalment Receipts per quarter. This standing order can be terminated at any time.

Investors who wish to apply to participate in the LLF should request a LLF form from SCPL, or download it from the website. Applications under the LLF will be considered an irrevocable offer by investors and cannot be withdrawn. An application must be for an investor's entire holding.

For applications under the LLF to be considered, investors should send completed application forms to the details listed on the form no later than 15 business days before quarter end. Investors who have made an application to participate in the LLF will be entitled to the distribution and will incur interest and fees on their final instalment for the quarter in which the application was received.

Completed LLF forms will be accepted by Westpac in order of receipt. Any LLF form not accepted, due to the LLF being oversubscribed in any single Quarter, may be included in the applications for the following Quarter's LLF. SCPL, on behalf of Westpac, will notify investors in writing whether their application has been successful within 15 business days after the end of the quarter in which the transfer form was received.

For the purposes of the LLF, NTA per unit will be calculated twice a year based on the financial statements of the Trust prepared as at 30 June and 31 December.

Limitations

The LLF may be terminated without notice to investors at any time and there is no guarantee that it will continue. The LLF can be terminated by Westpac in the following circumstances:

- STML withdraws its standing order with Westpac to acquire Instalment Receipts on Stockland Trust's behalf, which it may do at any time at its discretion. (STML will not acquire Instalment Receipts if to do so would cause its total aggregate holding in SDOT2 to exceed a 19.9 per cent interest). As at March 2010 Stockland Trust's holding is 16.65 per cent;
- SCPL convenes a meeting of investors to consider the investment strategy of SDOT2;
- There is a change in control of the RE.
- SDOT2's property interest is sold or STML as co-owner disposes its property interest;
- There is a change in Westpac's Australian Financial Services License such that Westpac can no longer provide the LLF.

SCPL will notify investors if the LLF is terminated in the quarterly distribution statement next following the date of termination.



Please refer to the Terms and Conditions of the LLF in the Product Disclosure Statement dated 27 July 2005.

Risks on Termination

The performance of the Trust will be influenced by a range of factors during the term of the Trust and at termination including:

- Changes in the economy and market conditions may affect demand and therefore property values;
- Investors will be indirectly exposed to property market risk;
- The value of the property may fluctuate depending on market conditions and there may be a delay in achieving a sale of the property;
- The Trust may be required to refinance the debt facilities;
- If the facilities cannot be entirely refinanced on its termination or expiry, then returns to investors may be adversely affected.

Please refer to Section 10 of the Product Disclosure Statement for more information.

Further Information

For further information in relation to the above please refer to the website at <http://www.stockland.com.au/UnlistedPropertyFunds> or contact our Client Relations Manager, Michael Radziowsky on (02) 9035 3208 or email michael.radziowsky@stockland.com.au.

Future updates on these Disclosure Principles will be made available on our website.