



# STOCKLAND DIRECT RETAIL TRUST NO. 1 (“SDRT1” or “the Trust”) ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES Updated March 2010

## Introduction

The following document has been prepared for SDRT1 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

<b>Gearing ratio:</b>	<b>58%</b>
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The gearing ratio indicates the extent to which the Trust’s assets are funded by interest bearing liabilities. It gives an indication of the potential risks the Trust 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

<b>Interest Cover Ratio:</b>	<b>1.02 times</b>
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Interest cover measures the ability of the Trust to service interest expense on debt from earnings. It is therefore a critical indication of the Trust’s financial health and key to analysing the sustainability and risks associated with the Trust’s level of borrowing. The lower the interest cover, the higher the risk that the Trust will not be able to meet its interest payments.

An Interest Cover Ratio (“ICR”) of 1.02 indicates that SDRT1 is able to meet its interest payments based on the 31 December 2009 Interim Financial Statements.

The ICR at 31 December 2009 is unusually low, due to the inclusion of the once off loss relating to the sale of Fremantle Shopping Centre.

Please note, the ICR above varies from the ratio provided to the financier. The variation is due to different calculations required by ASIC and the financier.

## Disclosure Principle 3: Scheme Borrowing

On 23 December 2009, SDRT1 and its financier agreed and finalised the terms of the refinanced loan facility due to mature on 22 December 2009. The loan facility was extended for a further two years with a maturity date of 31 December 2011.

The table below provides a summary of SDRT1’s existing borrowing arrangements.

	Limit (\$m)	Undrawn Amount (\$m)	Facility Expiry	Interest Rate	Hedge Expiry
Term Loan	39.3	0	Dec 11	6.45%*	Dec 11
CapEx	0.7	0.7	Dec 11	BBSY** +1.05%	n/a
<b>Total Facility</b>	<b>40.0</b>	<b>0.7</b>	<b>Dec 11</b>		

\* Includes the margin and line fee.

\*\* Includes the margin; excludes the line fee.

## Loan Covenants

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

Following investors’ approval on 11 December 2009, SDRT1 sold Fremantle Shopping Centre to Stockland Trust on 31 December 2009 for \$16.84 million, being the independent valuation as at 30 June 2009. Proceeds from the sale were used to reduce SDRT1’s loan facility and therefore ensure compliance with SDRT1’s loan-to-valuation ratio covenant as at 31 December 2009.

## Disclosure Principle 4: Portfolio Diversification

### Investment Strategy

The Trust aims to provide regular distributions and the opportunity for capital growth. To achieve this the Trust is invested in three retail properties. Fremantle Shopping Centre was sold in December 2009 and is no longer one of SDRT1’s properties.

The following table provides a summary of the Property Valuations for the SDRT1 Properties:

Property Valuations	
Property	Benowa Gardens Shopping Centre
Valuation	\$29.5m
Date of Valuation	31 December 2009
Valuer	Savills
Cap rate	8.00%
Occupancy	96%
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Property	Pacific Pines Shopping Centre
Valuation	\$18.5
Date of Valuation	31 December 2009
Valuer	Savills
Cap rate	7.50%
Occupancy	100%
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Property	Tamworth Homespace
Valuation	\$14.4m
Date of Valuation	31 December 2009
Valuer	Savills
Cap rate	10.50%
Occupancy	86%

#### Top 5 Tenants by Income as at 31 December 09

Top 5 Tenants	% of Income	% of NLA
Woolworths	11%	14%
Coles	8%	8%
The Good Guys	5%	10%
Sleep City & Everyday Living	4%	7%
Benowa Gardens Pharmacy	3%	-
Tamworth Furniture One	-	5%

#### Diversification as at 31 December 09

Diversification	Geographic Spread By Value	Geographic Spread By Number
	Geographic Spread By Value	Geographic Spread By Number
QLD	77%	67%
NSW	23%	33%

	Sector Spread By Value	Sector Spread By Number
Retail	100%	100%

#### SDRT1 Occupancy and Weighted Average Lease Expiry

At 31 December 2009, SDRT1 occupancy was 92 per cent and the Weighted Average Lease Expiry was 5.0 years.

#### Lease Expiry Profile by Area as at 31 December 09



■ Vacant
 ■ FY10
 ■ FY11
 ■ FY12
 ■ FY13
 ■ FY14+

#### Disclosure Principle 5: Valuation Policy

SDRT1's policy is for all properties 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 a property's 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 4,013,000 units in SDRT1 as at 31 December 2009;
- Three SCPL Directors held units in SDRT1 at 31 December 2009. Mr David Kent held 110,000 units, Mr Matthew Quinn held 10,000 units and Mr Peter Scott held 20,000 units;
- Stockland Capital Partners Limited ("SCPL") is the Responsible Entity of SDRT1. SCPL does not hold any units in SDRT1;
- Sale of Fremantle Shopping Centre on the 31 December 2009 to Stockland Trust (under its first right of refusal) for the June 2009 independent valuation price of \$16.84 million as approved by investors.

### Fees to related parties

Type	Amount	When Paid?
Responsible Entity Fee	\$0.184m for the half year ended 31 December 2009, representing 0.45% p.a. of the Trust's gross assets.	Payable to SCPL from the assets of the Trust at the end of each quarter.
Performance Fee	Nil provided for at 31 December 2009 as calculated by 2.56% of the gross value of the properties provided that hurdle rates are met and investors receive at least the return of their application monies.  Please refer to Section 7 of the Product Disclosure Statement ("PDS").	Payable to SCPL on expiry or wind up of the Trust or sale of the properties.
Property Management Fee	\$0.289m for the half year ended 31 December 2009, representing 5% of the gross income from the properties (except for Fremantle Shopping Centre, where the fee was 2.5%).	Payable to Stockland Property Management Limited throughout the year.

### 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 SDRT1 by separate independent legal advice obtained by SCPL on behalf of SDRT1;
- Two of the Directors are independent of Stockland;
- Monitoring of compliance with SCPL'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. The Stockland Executive Director is excluded from voting on such transactions;
- Acting in accordance with the Responsible Entity's 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 SDRT1.

## Disclosure Principle 7: Distribution Practices

Some unlisted property trusts 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 SDRT1 were funded 100 per cent from realised income. Going forward it is anticipated that distributions will continue to be funded entirely from realised income 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 the Termination Date.

Investors may however be able to sell their units by participating in the Limited Liquidity Facility (“LLF”) offered by NAB, or through the Off-Market Transfer process.

#### Limited Liquidity Facility

The LLF is a facility which NAB has agreed to provide to SDRT1 investors. 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.

NAB has agreed to acquire up to 1,000,000 units in SDRT1 per quarter from investors seeking to realise their units. Units 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 NAB to acquire a maximum of 1,000,000 units 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 the form 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 address 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 for the quarter in which the application was received.

Completed LLF transfer forms will be accepted by NAB in order of receipt. Any LLF transfer forms that are 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 NAB, 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, the 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 can be terminated by NAB in the following circumstances:

- NAB may unconditionally suspend or terminate the LLF at any time in its sole discretion.
- There is no guarantee that the LLF will continue for the duration of the Trust.
- STML’s standing order will terminate when it and its related entities hold 19.9 per cent of the units, at which stage NAB will acquire up to a maximum holding of 19.9 per cent of units if required.
- Note that as at March 2010 Stockland Trust’s current holding in the trust is 11.48 per cent.

The Responsible Entity 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 PDS.

#### 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 properties may fluctuate depending on market conditions and there may be a delay in achieving a sale of the properties;
- 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 8 of the PDS 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](mailto:michael.radziowsky@stockland.com.au).

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