



# STOCKLAND DIRECT OFFICE TRUST NO. 3 and STOCKLAND HOLDING TRUST NO.2 ("SDOT3" or "the Trust") ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES Updated March 2013

## Introduction

The following document has been prepared for SDOT3 for the purposes of ASIC Regulatory Guide 46.

SDOT3 is currently in the process of selling the assets in the Trust. The Trust will be wound up following the sale of all assets.

For further information please refer to the Financial Report on our website: <http://www.stockland.com.au/UnlistedPropertyFunds>.

## Disclosure Principle 1: Gearing Ratio

<b>Gearing ratio:</b>	<b>Not Applicable</b>
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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.

**This Disclosure principle is not applicable for SDOT3 as the Debt Facility has now been fully repaid.**

## Disclosure Principle 2: Interest Cover

<b>Interest Cover Ratio:</b>	<b>Not Applicable</b>
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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.

**This Disclosure principle is not applicable as the Debt Facility has now been fully repaid.**

## Benchmark 3: Interest Capitalisation Policy

SDOT3's policy is never to capitalise its interest payments. This Benchmark is met as SDOT's interest expense is not, and has never been, capitalised.

**This Disclosure principle is now not applicable as the Debt Facility has now been fully repaid.**

## Disclosure Principle 3: Scheme Borrowing

As at 21 January 2013, the debt facility with ANZ was fully repaid using the net sale proceeds from the sale of SDOT3 assets.

Subsequent to the repayment of the loan, the debt facility with ANZ was terminated on 30 January 2013.

## Loan Covenants

Prior to the termination of the debt facility, all loan covenants were complied with as at 31 December 2012.

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 the return of any capital to investors.

SDOT3 has a loan facility offer from Stockland Trust Management Ltd ("STML"), which expires on 31 August 2013. This facility was not utilised by SDOT3 and the offer no longer applies as the Debt Facility has been fully repaid and terminated.

## Disclosure Principle 4: Portfolio Diversification

### Investment Strategy

The Trust received unitholder approval to sell the assets in the trust and subsequently wind up the trust.

Following the approval from unitholders to sell the assets and wind up the fund, the properties were offered for sale via a public marketing campaign. The following is a summary of the sale process to date:

- 222 Russell Street Carpark, Melbourne was sold to a local private investor for \$16,880,000. The sale settled on 29 October 2012.
- 75 George Street, Parramatta was sold to a private investor for \$32,550,000. The sale settled on 21 December 2012.

\*Stockland Direct Office Trust No. 3 is a registered managed investment scheme. ARSN 124 439 925. It is stapled to; Stockland Holding Trust No.2, a registered managed investment scheme. ARSN 132129134. Stockland Capital Partners Limited SCPL (AFSL 241188) is the responsible entity of both Trusts.

- 181 Great Eastern Highway, Belmont was sold to a local syndicator for \$19,100,000. The sale settled on 21 January 2013 .
- 541 St Kilda Road, Melbourne is currently under a conditional sale contract. Further details will be provided when the sale contract becomes unconditional.

The following provides a summary of the last independent valuation for the remaining property in SDOT3, being 541 St Kilda Road, Melbourne. The last independent valuation was undertaken on 30 June 2012.

#### Property Valuation for 541 St Kilda Road

Property	541 St Kilda Rd, Melbourne*
Valuation	\$26.5 m
Date of External Valuation	30 June 2012
Valuer	Savills
Cap rate	8.75%
Book Value at 31 December 2012	\$27.25 m

*\*This property is under conditional sale contract*

#### Benchmark 4: Valuation Policy

SDOT3's valuation policy provides for the property to be independently valued at least once every three years by a Certified Practising Valuer registered with the Australian Property Institute. An internal valuation is undertaken at every half year when an external valuation does not occur. Where the internal valuation results in a variance outside the range -5% to +5% of the 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% to +5% of the most recent independent valuation, a new external valuation is required.

SDOT3 complies with its policies with respect to property valuation. Investors wishing to obtain a copy of the full valuation

policy, please contact our Client Relations Manager, Janine Seeto on (02) 9035 2491 or Janine.seeto@stockland.com.au.

#### Disclosure Principle 5: 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 a Responsible Entity ("RE") takes 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.

As outlined in Section 4.7 of the Product Disclosure Statement ("PDS"), approval of all related party transactions by the board of Stockland Capital Partners Limited ("SCPL"), the RE of SDOT3, are to be by unanimous vote, including two independent Directors.

#### Related party transactions

Listed below are the primary related party transactions for the half year ended 31 December 2012. Please refer to Note 12 of the Financial Report for a full review of related party transactions concerning SDOT3.

- STML as the RE of Stockland Trust, a related party of Stockland Capital Partners Limited ("SCPL"), held 11,934,000 units in SDOT3 at 31 December 2012.
- One SCPL Director held units in SDOT3 at 31 December 2012. Mr Matthew Quinn held 10,000 units. Note that Mr David Kent resigned as a Director of the Trust on 30 June 2012. Note that Mr Matthew Quinn resigned as Director of the Trust on 11 January 2013 and Mark Steinert was appointed on the 29 January 2013.

- SCPL is the RE of SDOT3. SCPL does not hold any units in SDOT3.
- STML has provided an interest rate swap on SDOT3's property loan facility at 5.75% per annum plus a margin and line fee. This swap was terminated on 19 February 2013.
- SDOT3 has a loan facility offer from Stockland Trust Management Ltd ("STML"), which expires on 31 August 2013. This facility was not utilised by SDOT3 and the offer no longer applies as the Debt Facility has been fully repaid and terminated.

#### Fees to related parties

Type	Amount	When Paid?
RE Fee	\$0.220m for the half year ended 31 December 2012, representing 0.45% p.a. of SDOT3's gross assets.	Payable to SCPL from SDOT3's assets at the end of each Quarter. A portion of the RE fee is deferred and payable upon the wind up of the Trust. Please refer to Note 12 of the 31 December 2012 Financial Report for further details.
Performance Fee	Nil was provided for at 31 December 2012. The RE is entitled to a performance fee calculated as 20.5% of the performance of the stapled entity	Payable to SCPL on expiry or wind up of SDOT3 or sale of SDOT3's properties. For further information please refer to Section 7 of the PDS dated 2 April

	above the benchmark (10 year bond yield plus 3.0% per annum).	2007.
Property Management Fee	\$0.087m for the half year ended 31 December 2012, for property management and leasing.	Payable to Stockland Property Management Limited throughout the year as incurred.

### Benchmark 5: Related Party Transaction Policy

A corporate governance framework has been established by SCPL to protect the interests of investors. This framework includes the following components:

- Documented and executed agreements between Stockland and SDOT3 with independent legal advice obtained by SCPL on behalf of SDOT3;
- One of the two directors of the SCPL Board are independent of Stockland Corporation;
- Compliance monitoring 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;

Undertaking of actions in accordance with Stockland'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

SDOT3 complies with its policies and procedures with respect to Related Party Transactions.

### Disclosure Principle 6: Distribution Practices

A Distribution was paid to unitholders on 31 August 2012 for the quarter ending 30 June 2012. Distributions for the final quarter ending 30 June 2012 for SDOT3 were funded 100% from realised income.

### Benchmark 6: Distribution Policy

SDOT3's policy is to fund distributions entirely by available cash from realised income. SDOT3 did not provide investors with a distribution for the quarter ending 30 September and 31 December 2012. As previously communicated, we will continue to monitor the operating income and future expenditure requirements and assess the ability for SDOT3 to pay distributions at the end of each quarter.

Going forward, it is anticipated that distributions will continue to be funded from available cash from realised income. This approach is considered sustainable over the next 12 months. However, SCPL may review and adjust accordingly.

### Disclosure Principle 7: Withdrawal Arrangements

Investors are unable to redeem their units until SDOT3 terminates. Investors may however be able to transfer their units through an Off Market Transfer.

### Limited Liquidity Facility

Investors were previously able to transfer their units in SDOT3 via a Limited Liquidity Facility ("LLF"). In accordance with the terms of the SDOT3 PDS, the LLF is now closed. Stockland's holding is currently 19.9%, the maximum holding permitted under section 5.7 of the PDS. The September 2010 Quarter was the last period in which the LLF operated.

### Off Market Transfers

Investors are able to transfer their units in SDOT3 via an Off Market Transfer. Investors may transfer their units to third parties at any time in accordance with the terms and conditions detailed in Section 5.6 of the PDS. The Off Market Transfer form is available on our website

<http://www.stockland.com.au/UnlistedPropertyFunds>.

### 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 SDOT3 PDS and Section 5 of the SHT2 PDS for further information regarding risks.

### Disclosure Principle 8: Net Tangible Assets

<b>Net Tangible Assets</b>	<b>\$0.63</b>
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The net tangible assets per unit (NTA) states the underlying value of the Trust, and is calculated as follows:

NTA = Net assets - intangible assets +/- adjustments  
Number of SDRT1 units

NTA = 37,633,000  
60,020,000

The NTA helps investors understand the value of the assets upon which the value of their unit is determined. The NTA is based on the financial statement dated 31 December 2012.

Note that the fund is a closed end fund and therefore there are no redemption rights available to investors

### 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, Janine Seeto on (02) 9035 2491 or [Janine.seeto@stockland.com.au](mailto:Janine.seeto@stockland.com.au)

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