



**Conflict of Interest
and
Related Party Transactions
Policy**

Conflicts of Interest and Related Party Transaction Policy

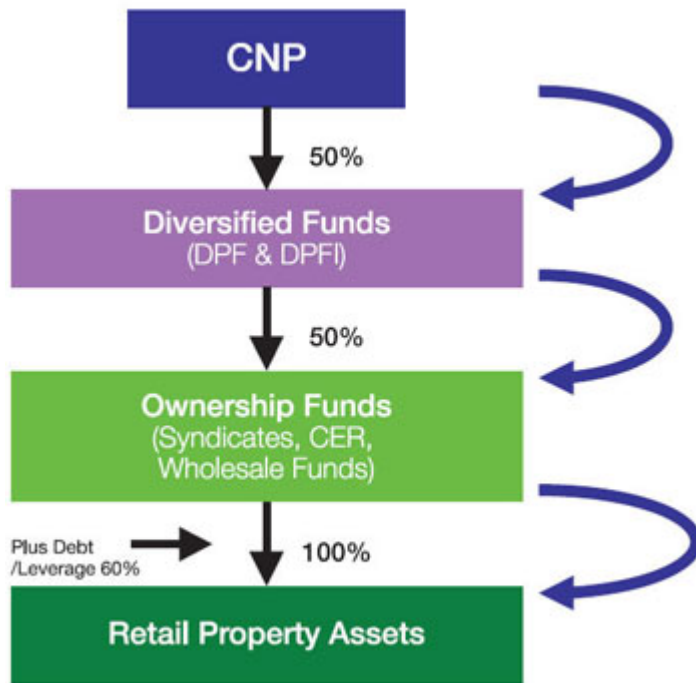
This document sets out Centro's policy in relation to the handling of related party transactions and conflicts of interest. The policy is set out in the following sections:

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1 Background and Purpose

Centro Properties Group ("Centro") is a listed retail property and funds management organization specialising in the ownership, management and development of shopping centres. Centro also manages a number of registered managed investment schemes ("schemes"), including Centro Retail Trust, a separate listed entity, Centro MCS direct property syndicates (over 30 at the date of this policy), the Centro Direct Property Fund and the Centro Direct Property Fund International. Recently, Centro has added two new wholesale funds to its portfolio – Centro Australia Wholesale Fund and Centro International Wholesale Fund. There are 2 entities within Centro which act as responsible entity for CNP, CER and each of the managed funds and syndicates – CPT Manager Limited and Centro MCS Manager Limited. The composition of the board of directors of Centro is identical to Centro MCS Manager Limited and CPT Manager Limited, or collectively "the Centro REs").

Centro's business model follows a Cemented Coinvestment Structure which provides diversification through owning partial interests in a greater number of assets rather than sole ownership of fewer properties. That is, Centro aims to hold in an effective 25% equity ownership interest in underlying retail property assets. This occurs through a two tiered ownership structure where Centro effectively owns around 50% of a diversified fund (eg Direct Property Fund, Direct Property Fund International), which in turn owns around 50% of an ownership fund (eg Centro MCS Syndicates, CER, Wholesale Funds) which in turn owns the underlying retail property asset financed by both equity and debt. Centro's Cemented Coinvestment Structure can be represented diagrammatically as follows:



Given Centro's business model and the uniformity of board composition, matters involving potential related party issues and conflict of interest issues may arise. Typically these can arise in the context of:

- Investments/acquisitions;
- Divestment of properties (as more than one Centro fund may have an interest, direct or indirect, in an underlying asset);
- Provision of property and fund related services;
- On-going management of centres and tenants;
- Funds management activities.

Centro aims to achieve a high standard of corporate governance in the management of the schemes. It aims to ensure that all transactions that involve potential related parties or conflicts of interest are determined on a fair, reasonable and consistent basis. The purpose of this policy is:

- (a) to prescribe the circumstances in which a Centro group company or the RE of a Centro registered managed investment scheme ("**scheme**") may enter into a related party transaction;
- (b) where a Centro group company or the Centro RE proposes to enter into a transaction which may not be a related party transaction, but nevertheless gives rise to a potential conflict of interest, to prescribe the manner in which the Centro group company or the Centro RE may deal with the potential conflict.

1.1 Centro's control processes

Centro has established a number of control processes that enable it to properly consider transactions within the group from a related party and conflict of interest point of view. These processes include the following:

- **Compliance Plan and Committee** – Centro’s compliance plan and committee provides a means for review of related party transactions and conflicts of interest at an operational level through the framework of registered managed investment schemes.
- **Due Diligence Committees** – Established for corporate transactions such as establishment of new funds, issuing of Product Disclosure Statements, capital raisings, issuing of Explanatory Memoranda or Information Memoranda. The board is represented by the inclusion in each Due Diligence Committee of one of the independent directors. A standing agenda item for each Due Diligence Committee is “Conflicts of Interest”, which is addressed via the application of specified criteria.
- **Control Groups** – Management control groups at an operational level are formed for various transactions, including property acquisitions, corporate acquisitions, syndicate rollovers and other significant corporate transactions. Members of all relevant Centro departments are represented on each group, which is chaired by a member of the Executive Committee. This group will consider related party transaction and conflict of interest issues for each transaction, and in doing so will have regard to the principles set out in this policy.

2 Related Party Provisions

2.1 Corporations Act

The related party provisions of the Corporations Act are set out in Chapter 2E (and are applied to schemes by virtue of section 601LA). In essence, these provide that public companies in the Centro Group or a Centro RE must not give a financial benefit to a related party without the approval of the members of the company or the relevant scheme (as the case may be), unless the giving of that benefit falls into one of the exceptions listed in the legislation (set out below in section 2.1.3).

2.1.1 Who is a related party?

The following table sets out those entities that will be considered related parties of Centro Properties Limited, a Centro RE and other public companies in the Centro Group.

Entity	Related parties
Centro Properties Limited (CPL)	<ul style="list-style-type: none"> • An entity that controls CPL (no entity falls into this category) • A director of CPL, their spouses, de facto spouses, parents and children • Entities controlled by a director of CPL, their spouses, de facto spouses, parents or children
Centro RE	<ul style="list-style-type: none"> • CPL (as the parent company of the Centro RE) • Any other Centro group company which controls the Centro RE

	<ul style="list-style-type: none"> • Where a Centro RE is controlled by another Centro group company, any other entity also controlled by the Centro group company but not by the Centro RE • A director of the Centro RE, their spouses, de facto spouses, parents and children • A director of any Centro group company which controls the Centro RE, their spouses, de facto spouses, parents and children • Entities controlled by a director of CPL (or other controlling Centro group company) or the Centro RE, or their spouses, de facto spouses, parents or children (unless the entity is also controlled by the Centro RE)
Other public companies in the Centro Group (Centro PC)	<ul style="list-style-type: none"> • CPL (as the parent company of the Centro PC) • Any other Centro group company which controls the Centro PC • Where a Centro PC is controlled by another Centro group company, any other entity also controlled by the Centro group company but not by the Centro PC • A director of the Centro PC, their spouses, de facto spouses, parents and children • A director of any Centro group company which controls the Centro PC, their spouses, de facto spouses, parents and children • Entities controlled by a director of CPL (or other controlling Centro group company) or the Centro PC, or their spouses, de facto spouses, parents or children (unless the entity is also controlled by the Centro PC)

An entity is also a related party of a public company at a particular time if the entity:

- was a related party of the company at any time within the previous 6 months; or
- the entity believes or has reasonable grounds to believe that it is likely to become a related party of the company at any time in the future.

In a situation where a Centro group company or a Centro RE proposes to enter into a transaction with a Centro group member that is not a related party transaction, there may still be a conflict of interest, which will in that case be dealt with in accordance with this policy.

2.1.2 What is a financial benefit?

The definition of financial benefit is broad. A financial benefit includes giving a financial benefit indirectly through an interposed entity, making an informal, oral or non binding agreement to give the benefit, and giving a benefit that does not involve paying money.

Examples of “giving a financial benefit” to a related party include the following:

1. Giving or providing the related party finance or property;
2. Buying an asset from or selling an asset to the related party;
3. Leasing an asset from or to the related party;
4. Supplying services to or receiving services from the related party;
5. Issuing securities or granting an option to the related party; and
6. Taking up or releasing an obligation of the related party.

2.1.3 Determining whether member approval is required

The following transactions do not require member approval under the Corporations Act:

1. If the terms would be reasonable if the parties were dealing 'at arms length';
2. If the terms are less favourable to the related party than 'arm's length' terms;
3. If the benefit is a payment of expenses incurred or to be incurred, or reimbursement for expenses incurred, by a related party in performing duties as an officer or employee of the Centro group company/Centro RE and the benefit is reasonable in the circumstances;
4. If the benefit is remuneration to the related party as an officer or employee of the Centro group company/Centro RE and the benefit is reasonable in the circumstances;
5. If the benefit is given to the related party in their capacity as an officer of the Centro group company/Centro RE and the benefit is an indemnity, exemption or insurance premium in respect of a liability incurred as an officer of the public company or entity that is reasonable in the circumstances;
6. If the benefit is given to the related party in their capacity as an officer of the Centro group company/Centro RE and the benefit is the making of a payment in respect of legal costs incurred by the officer in defending an action for a liability incurred as officer of the public company or entity that is reasonable in the circumstances;
7. If the benefit is given to the related party as a member of the Centro group company or scheme, and giving the benefit does not discriminate unfairly against the other members of the company scheme;
8. If the benefit is given as an amount of money for a director of a public company or their spouse or de facto spouse if the amount does not exceed \$2,000 (this does not apply to schemes); or
9. If the benefit is given to a related body corporate of a closely-held subsidiary of the body or by the subsidiary to an entity it controls (this does not apply to schemes).

Transactions carried out pursuant to an existing agreement, which itself has been approved in accordance with the Corporations Act and this policy, do not require further approval unless the transaction is outside the terms of the original agreement. An example of such an agreement is the ongoing transactional provision of services, such as property leasing services pursuant to a property management agreement.

2.1.4 **Evidencing arms' length**

Generally, a Centro group company that is a public company or a Centro RE will be excepted from the need for member approval under the Corporations Act because the related party transaction is conducted on terms that would be reasonable if the parties were dealing at arms length.

“Arms length” refers to transactions conducted as if the parties were not related. In general terms, ‘arms length’ terms and conditions will be determined in accordance with the following principles:

- In the case of acquisitions of assets by or from Centro related parties, by reference to independent valuations based on the terms of the proposed transaction;
- In the case of acquisitions by way of co-investments between Centro entities, the terms will be by reference to the agreement reached with the unrelated third party vendor;
- In the case of acquisitions of unlisted financial products issued by Centro MCS syndicates or other Centro schemes at the time of issue (e.g. under a product disclosure statement or information memorandum), by reference to the same terms and conditions as apply to public investors;
- In the case of later dealings in unlisted securities issued by a Centro scheme, by reference to “fair market value” normally assessed taking into account the latest published net asset backing of the relevant financial product;
- In the case of services provided by a Centro entity, by reference to the fees currently being charged by similarly qualified unrelated entities;
- In the case of the provision of loans, by reference to prevailing terms and conditions applied by other lenders and by reference to the terms and nature of the security provided for the loan; and
- Where appropriate or where no other method of determination exists, by reference to the opinion of a suitably qualified independent expert that the terms are fair and reasonable.

2.2 **ASX Listing Rules**

In addition to the Corporations Act requirements for related party transactions, Centro Properties Group and Centro Retail Trust must also comply with ASX Listing Rules on transactions with persons in a position of influence.

Under Listing Rule 10.1, both the company and the responsible entity of the ‘stapled’ vehicle comprising Centro Properties Group or Centro Retail trust must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, any of the following persons without the approval of the holders of the stapled securities or without the grant of a waiver by the ASX:

1. a related party (as defined in the Corporations Act – see section 2.1.1 above);
2. a subsidiary;
3. a substantial holder, if the person and their associates have a relevant interest, or had a relevant interest in the preceding 6 months, in at least 10% of the total votes attached to the stapled securities;
4. an associate of a person referred to in paras 1 to 3 above; and

5. a person whose relationship to the entity or a person referred to in paras 1 to 4 above is such that, in ASX's opinion, the transaction should be approved by stapled security holders.

An asset is 'substantial' if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX.

Rule 10.1 does not apply to:

- a transaction between the entity and a wholly owned subsidiary;
- a transaction between wholly owned subsidiaries of the entity;
- an issue of securities by the entity for cash;
- in the case of a trust, a transaction involving a substantial asset that was not beneficially held for the trust before the transaction and is not beneficially held for the trust after the transaction; or
- a transaction between the entity and a person who is a related party by reason only because the person believes, or has reasonable grounds to believe, that the person is likely to become a related party.

2.3 Procedure for Dealing with Related Party Transactions

Where a Centro group company that is a public company or a Centro RE either on its own account or as RE of a scheme proposes to enter into a transaction of the type listed in paragraph 2.1.2 or section 2.2 with a party listed in paragraph 2.1.1 or section 2.2, the following procedure applies.

1. The relevant responsible officer makes appropriate disclosure to a member of the Executive Committee about the proposed transaction. This disclosure should include the following:
 - a. Details of the proposed transaction;
 - b. Proposed transaction parties and how they are related;
 - c. Whether an exception to member approval applies (refer section 2.1.3 and 2.2);
 - d. How arm's length may be evidenced (if relevant) (refer section 2.1.4);
 - e. What member approval may be required; and
 - f. What steps must be taken to obtain that approval.
2. The Executive Committee member will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The Executive Committee member may confer with other Executive Committee members and the General Counsel, and may take external legal advice, in reaching this determination.
3. Where the related party transaction is considered not to be at 'arms length' and is not subject to any of the statutory or listing rule exceptions, the transaction should be referred to the General Counsel by the relevant Executive Committee member to ensure that, if proceeded with, the transaction is carried out in a manner that is compliant with the obligations imposed by the Corporations Act and ASX Listing Rules. This may include calling a meeting of members to approve the related party transaction, in

accordance with the Corporations Act, ASX Listing Rules and the constitution of the relevant entity/scheme.

4. Where the General Counsel or Executive Committee Member believes the transaction to be permitted, and provided that the transaction has been approved by the Board, it may then be carried out in accordance with normal operational procedures.

3 Conflicts of Interest

3.1 Introduction

The Corporations Act requires that:

- The directors of Centro must exercise their powers and discharge their duties in good faith in the best interests of the company and for a proper purpose (Centro has ASIC relief which allows it to act in the best interests of the stapled entity, rather than just the company or just the members of the scheme); and
- When acting as responsible entity of a Centro scheme, a Centro RE must act in the best interests of the scheme's members and, if there is a conflict between the scheme members' interests and the interests of the Centro RE, give priority to the scheme members' interest.

In addition, Chapter 7 of the Corporations Act requires the Centro REs, as holders of Australian financial services licences, to have in place adequate arrangements for the management of conflicts of interest that may arise in relation to the activities undertaken by the RE's as part of their financial services businesses. For this purpose, conflicts of interest are circumstances where some or all of the interests of people to whom the RE provides financial services (ie. scheme members) are inconsistent with, or diverge from, some or all of the interests of the RE. This includes actual, apparent and potential conflicts of interest.

Conflicts of interest may arise in the following situations:

- Asset acquisitions and disposals between Centro group members (see section 3.3 below);
- Co-investments between Centro group members;
- Property management and development services by one Centro group member for another;
- Project management services by one Centro group member for another;
- Property leasing by one Centro group member for another;
- Fund establishment services by one Centro group member for another;
- Fund management services by one Centro group member for another;
- Lending to and borrowing from one Centro group member by another; and
- Financing and/or hedging services by one Centro group member for another.

3.2 Procedure for Dealing with Conflicts of Interest

In circumstances where a potential legal or governance conflict arises, the relevant Centro entity or board will be guided by:

- The investment parameters of the particular scheme or schemes; and

- Principles of good governance. That is, adherence to the legal requirements and spirit of the law.

In dealing with conflicts of interest, Centro will make use of the related party transactions policy. That is:

1. The relevant responsible officer makes appropriate disclosure to a member of the Executive Committee about the proposed transaction. This disclosure should include the following:
 - a. whether it is possible to avoid the conflict;
 - b. how arm's length may be evidenced (if relevant);
 - c. what member approval may be required and what steps must be taken to obtain that approval.

Normally this would take the form of a "Conflicts of Interest Matrix" (see section 3.4 below). (Note that no statutory exceptions exist to the requirement to act in the best interests of the company or scheme members.)

2. The Executive Committee member will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The Executive Committee member may confer with other Executive Committee members and the General Counsel, and may take external legal advice, in reaching this determination.
3. Where it is considered that the conflict cannot be dealt with by acting at 'arms length', the transaction should be referred to the General Counsel by the relevant Executive Committee member, to ensure that if proceeded with, the transaction is carried out in a manner that is compliant with the obligations imposed by the Corporations Act and ASX Listing Rules. This may include calling a meeting of members to disclose the conflict and approve the transaction, in accordance with the Corporations Act, ASX Listing Rules and the constitution of the relevant entity/scheme.
4. Where it is decided that the conflict has such a serious potential impact on Centro, the Centro RE or scheme members that it cannot be adequately managed by acting at arm's length or disclosing it to members and seeking their approval, the General Counsel or the Executive Committee member may decide that the transaction may not proceed in the manner proposed.
5. Where the General Counsel or Executive Committee member decides that the transaction may proceed, and provided that it has been approved by the Board, it may then be carried out in accordance with normal operational procedures.

As required by ASIC policy on managing conflicts of interest (Policy Statement 181) , Centro will maintain, for at least 7 years, records of conflicts identified in relation to the Centro REs and actions taken in accordance with the above policy and copies of conflicts disclosures given to scheme members or the public.

3.3 Acquisitions Rationale

Centro will from time to time identify property investment acquisition opportunities which may be suitable for acquisition by its managed funds. Except in very limited circumstances, Centro will have absolute discretion as to whether and which of its managed funds it may offer an investment opportunity. Centro considers that conflicts are generally not likely to arise at the point of acquiring an asset, because at this stage

the decision concerns which scheme will have an opportunity to acquire. By giving any one scheme the opportunity to acquire, Centro cannot be said to be not acting in the best interests of members of other schemes which have not been given the opportunity to acquire, where no right to that opportunity exists in those other schemes.

When Centro considers the acquisition of an asset, in determining which Centro scheme or schemes will acquire the asset and in which proportions, Centro will apply an acquisitions rationale to assist it to determine which schemes are eligible to participate, prior to determining the final allocation of an acquisition opportunity to any given scheme.

The acquisitions rationale will consider the following from the point of view of each scheme:

1. Property Characteristics, including:
 - Geographic considerations, including:
 - location (including whether domestic or international);
 - Competition;
 - Proximity to other Centro assets;
 - Local demographics;
 - Physical items, including:
 - Age;
 - Size;
 - State of repair, including any redevelopments;
 - Maintenance needs;
 - Environmental status;
 - Tenancy items, including:
 - Lease profile;
 - Vacancy status;
 - Arrears status;
 - Financial items, including:
 - Cashflow – current and anticipated;
 - Capital expenditure needs – current and anticipated;
 - Yield;
 - IRR;
2. Scheme characteristics, including:
 - The investment parameters or guidelines to determine whether the acquisition fits within them, having regard to the type of property, its location, its lease profile and age;
 - The characteristics of the scheme (ie whether closed or open-ended and its anticipated termination date), its performance history and investor profile and any other relevant considerations;
 - Whether the scheme has any other assets in close proximity to the proposed asset and the effect if acquired;

- Whether the acquisition could give rise to potential conflicts in the future management of the property and the management of those conflicts;
 - Whether the scheme has any right to acquire the asset over any other scheme;
 - The ability of the scheme to fund the acquisition, through debt or equity;
 - The effect of the proposed acquisition on returns;
 - The effect of the proposed acquisition on net asset backing value;
3. Value adding opportunities, including;
- Development opportunities;
 - Co-investment opportunities with other Centro entities; and
 - Strategic abilities re ongoing management including re competition;

3.4 Conflicts of Interest Matrix

The Conflict of Interest Matrix (Matrix) is prepared for each transaction or situation in which a potential conflict of interest has been detected. The Matrix will:

1. Set out what the transaction or situation is;
2. Identify the perceived conflict;
3. Identify the proposed method of dealing with the conflict;
4. Assess whether by dealing with the conflict in the manner proposed, the conflict has been eliminated or can be adequately managed.

3.5 Disclosure of Conflicts of Interest

For the Centro REs, having adequate arrangements in place to manage conflicts of interest as a licensee includes ensuring that there is adequate disclosure of conflicts to investors, who can then consider their impact before making investment decisions (see ASIC Policy Statement 181, para [181.51]).

What conflicts disclosures are necessary will depend on the facts and circumstances, including whether the scheme members are retail or wholesale, and will be considered as part of the process outlined in section 3.2 above.