



## **RELATED PARTY POLICY**

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**Level 10, 60 Castlereagh St, Sydney 2000**

# 1. Policy

The Goodman Group (“GMG”) aims to ensure that all related party transactions and payments are conducted on an arm’s length basis and that the process surrounding those transactions and payments is transparent and fully documented. In doing this, GMG provides the Board with assurance that the highest standards of corporate governance are being met and that the Group’s activities are justifiable and defensible.

## 2. Introduction

### 2.1. What is the Goodman Group?

The Goodman Group (“GMG”) combines the business activities of Goodman International Limited (“GIL”) and Goodman Industrial Trust (“GIT”) to create an internally managed, vertically integrated industrial property group. Its operations encompass industrial property ownership, funds management, property development, project and development management and property services.

GIT is a registered managed investment scheme. The responsible entity for GIT is Goodman Funds Management Limited (“GFM”).

In Australia, the funds management activities of the Group also include Goodman Funds Management Australia Limited (GFMA) as the responsible entity for Goodman Australia Industrial Fund (**GAIF**) (comprised of the stapled registered managed investment schemes).

### 2.2. Objectives of the Policy

The objectives of the Related Party Policy and processes are as follows:

- To ensure that all related party transactions and payments are conducted on an arm’s length basis.
- To articulate and document the process adopted by GMG to formalise related party transactions between GMG and related parties.
- To make transparent and defensible the process surrounding related party transactions and payments.
- To provide the Board and management of GMG with relevant information to enhance their understanding of related party payments.

### **2.3. Where does this Policy apply?**

This policy applies to the Australian operations of GMG. For example, it applies to transactions between GMG and GAIF from the perspective of GMG but not GAIF. GAIF has its own related party policy to govern its dealings with GMG.

Separate related party policies have been or will be developed for New Zealand, Hong Kong and Singapore.

### **2.4. Updating of the Policy**

The Policy is continuously updated to incorporate additional information as and when it becomes available to ensure that the Policy remains relevant and current.

## **3. Legal Framework**

### **3.1 What is a “related party”?**

The Corporations Act determines who is a related party. Section 228 provides that an entity that controls the responsible entity is a related party of the responsible entity, and so is an entity which a related party controls (s228(1) and (4)).

Registered managed investment schemes must comply with the provisions of Part 5C.7 of the Corporations Act. When the Responsible Entity enters into a transaction with a related party within the meaning of the Corporations Act it must do so in accordance with the general related party transactions rules in Chapter 2E (modified by Part 5C.7) which restrict the circumstances in which financial benefit can be given to a related party of a registered scheme.

The term ‘financial benefit’ is defined in section 9 of the Corporations Act. A non-exhaustive list of examples of the giving of a financial benefit to a related party is set out in section 229(3) and includes a party providing finance or property to a related party; buying or leasing an asset from or selling an asset to a related party; supplying or receiving services from the related party; issuing securities or granting options to the related party; and taking up or releasing an obligation of the related party.

Chapter 2E of the Corporations Act is designed to protect the interests of members of a registered scheme by requiring member approval when giving financial benefits to related parties. However, the approval of scheme members is not required where the benefit is given on arm’s length terms.

Arm’s length is not defined in the Corporations Act, but the courts have considered on numerous occasions what constitutes arm’s length terms.

What is required is an assessment of whether the relevant parties have dealt with each other as parties normally do, so that the outcome of their dealing is a matter of real bargaining. A rigid application of a strict market value test that would derive a definitive arm's length price is not required.

In the real world, parties dealing genuinely at arm's length may not necessarily strike a price that is what the market would strictly derive as the prevailing open market price. The central question is whether they were dealing at arm's length.

However, as the formulation used in the Corporations Act exception is "on terms that ... would be reasonable in the circumstances if the [entity] and the related party were dealing at arms length" (which contains a degree of objective focus on the terms which are the outcome of the dealing), the terms should be such that, although not necessarily technically an open market price, they might reasonably have been agreed between arms length parties.

### **3.2 ASX Listing Rules**

In the absence of unitholder approval, the ASX Listing Rules prohibit the acquisition and disposal of a substantial asset to a related party where the value of that asset represents 5% or more of the entity's equity as set out in the latest accounts given to the ASX. The ASX may aggregate separate transactions if, in the ASX's opinion, they form part of the same commercial transaction.

### **3.3 Compliance Plan**

The Compliance Plan sets out various duties and compliance activities which must be observed by the Responsible Entity. Rule 9.19 of the Plan provides that dealings with related parties only occur in accordance with the Corporations Act. Contracts are only entered into with related parties if undertaken on normal commercial terms and conditions and must be in the interests of unitholders. The Plan also provides that the process to review related party transactions be consistent with this Policy.

## **4. Where do related party transactions occur within the Group?**

Prior to the stapling of GIL and GIT to form GMG, GIL and GMF were related parties and transactions between those groups gave rise to a large number of related party issues.

Post-stapling, the interests of GIL and GIT are aligned and the related party issues are reduced to those which arise between GMG as a whole and related parties.

Related Party issues will continue to occur in transactions between parties described in section 228 of the Corporations Law. For example:

- (a) a transaction between entities controlled by a director of GMG and GMG itself; and
- (b) a transaction between GMG and GFMA as responsible entity for GAIF.

## **5. Process to sell an asset to a Related Party**

In respect of the sale of an asset from GMG to a managed fund such as GAIF or Goodman Property Trust in New Zealand, the transaction will fall within the arm's length exception if sold on commercial terms.

Accordingly, any proposed sale of an asset must be supported by an independent valuation that provides a reasonable basis for the board or it delegates to consider that the transaction is an arm's length terms from the perspective of GMG.

## **6. Process to Engage Related Parties for a service**

GMG has developed a process which documents that the terms under which it is dealing with a related party constitute an arm's length arrangement with that related party. It is therefore possible for GMG to demonstrate that, for example, the fee proposed to be paid to a related party replicates the fee that would have been otherwise charged by an un-related party commissioned to do the same work.

### **6.1 Board invites related parties to submit Capability Statements**

The approval of related party service providers is conducted at the time the transaction with a related party is proposed. The process commences with the invitation by the Board to the related party to submit a capability statement covering clearly defined services for consideration by the Board. The capability statement sets out the competency and capability of the related party to provide the relevant services.

## **6.2 Board seeks advice on market fees for relevant services**

The Board requires that independently verifiable information be provided by the related party or sourced by GMG management which provides an assessment of fees charged for similar services in the marketplace. This information is used to assist the Board in comparing the fee proposed by the related party against relevant industry benchmarks. The Board considers the fee proposed by the related party and will then agree an appropriate fee for the particular engagement.

## **6.3 Board reviews related party capability statement and approves fees – Board Procedures**

The directors review the capability statement provided by the related party and if accepted, the minutes will reflect the formal approval.

Any director of GMG who has a material personal interest in the related party transaction should comply with Section 195 of the Corporations Act and declare his or her interest.

The non-interested directors will then determine whether the directors should remain in the Board meeting during the discussion and voting in respect of the relevant transaction.

After the initial Board approval of related party capability statements, the Board will also consider the appropriateness of specific fees proposed. The GMG Boards provide their reasons for accepting or rejecting the proposed fee as part of the mandate approval process. The particular fee to be taken is assessed on a case-by-case basis, depending on the individual circumstances of the transaction. Board approval is sought for all such fees.

# **7. Process to Monitor and review Related Party Transactions**

## **7.1 Separate Legal Sign-off**

To ensure compliance with the prohibition on the provision of financial benefits to related parties contained in the Corporations Act, and to ensure disclosure and resolution of conflicts of interest when directors or associates

of GMG hold interests in the group, separate legal representation is engaged to act for each party and to provide a sign off on the respective legal terms. The Group General Counsel coordinates and monitors this process

## **7.2 Sign-off by Group General Counsel/Company Secretary**

The Group General Counsel provides a sign off prior to all Board meetings that all necessary procedures were followed for related party transactions between GMG and its related parties for the applicable period. The Group General Counsel relies on executive reports, enquiries of relevant employees and personal observation in providing this certification.

## **7.3 GMG Board**

The GMG Boards are provided with information on related party fees which are proposed and related party fees which have been paid. The approval of such fees is carried out in accordance with Section 195 of the Corporations Act.

As described above the GMG Boards are provided with a sign-off from Group General Counsel that the necessary procedures were followed in order to ensure compliance with the requirements of the Corporations Act.

### **7.3.1 GMG Board review of paid fees**

In addition to the consideration of proposed fees, the Board of GMG is provided with a summary of related party payments which have been paid since the last Board meeting. This report outlines the fees paid for the period, the basis of the fee, the percentage of the fee, and the fees paid year-to-date.

Each of these payments has been previously approved by the Board prior to payment.

The Board reviews the related party schedule and the sign offs by the General Counsel at every meeting in order to satisfy itself that the necessary procedures were followed during the period.

## **7.4 Internal Audit**

GMG has engaged BDO, an external audit firm, to provide internal audit services to GMG.

BDO has a rolling program of audits, reviewing operational aspects of GMG's business. Related party transactions are included within the scope of the audit program.

The results of the internal audit reviews are reported to the Audit Committee of GMG which in turn reports to the Boards of GMG.

### **7.5 External Audit**

A company, registered scheme or disclosing entity is required to have the financial report for a financial year audited in accordance with the requirements of the Corporations Act and to obtain an auditor's report.

The audit report is included in the relevant entity's annual report and lodged with both the Australian Stock Exchange and the Australian Securities and Investments Commission.

GMG has engaged KPMG to perform the relevant audits for GMG.

### **7.6 Annual Report**

The annual report for GMG contains disclosures regarding related party payments for the financial year.

These disclosures are required by the Corporations Act and accounting standards.

## **8. Conclusion**

This Policy should ensure that the related party transactions of GMG are conducted on an arm's length basis so as to comply with all legislative requirements.