

Colonial First State Corporate Governance Update: October 2004

Colonial First State plays an active role in the corporate governance process. We do this via direct contact with companies and through exercising voting rights.

We aim to encourage management and boards to make decisions that are in line with shareholder interests.

Colonial First State is a major shareholder in many listed Australian companies. This places us in a position of some influence in these companies. It also provides Colonial First State and more particularly our investors with valuable assets, namely voting rights. As a fund manager we are required to act and vote in a manner that is in the best interests of our investors.

Colonial First State aims to vote on all issues, at company meetings in which our funds have investments. In the last 12 months* Colonial First State voted at 359 meetings on approximately 1650 resolutions. Each resolution is considered separately by the portfolio managers and in the last year 89% of resolutions were supported, 8% were opposed and we abstained on 3%.

The bulk of our abstentions were of a technical nature, dealing with approvals to issue shares where we had already agreed to take part in the share placement.

Voting at meetings is only one part of our approach to corporate governance. As a major investor, Colonial First State meets regularly with a wide range of company managements and directors. At these meetings, corporate governance issues can be raised.

Direct dialogue provides an opportunity to make management and directors aware of Colonial First State's expectations and requirements as a shareholder. Issues and concerns are mostly communicated with management and/or the company chairman well before a shareholders' meeting is required.

Our standing as one of the largest fund managers in Australia has led to a number of companies approaching us for guidance before making decisions on corporate governance issues. This is particularly common across smaller companies and is a trend that appears to be increasing as companies realise the importance of shareholder support in their activities.

By way of example we recently had contact with National Australia Bank regarding the resolution of its board of directors' dispute earlier this year.

Colonial First State subscribes to and uses the services of Corporate Governance International Pty Ltd (CGI). CGI is a highly regarded company that specialises in the analysis of corporate governance issues. They provide detailed summaries of the issues surrounding resolutions put before shareholders.

CGI's research is used as a tool to assist in the decision making process, rather than as a rule on how to vote. Colonial First State's dealings with a particular company and our existing corporate governance guidelines also provide perspective and guidance for our voting decisions.

The guiding principle when Colonial First State votes on a resolution is that the position must be in the best interest of our investors.

When applying our corporate governance policy, two areas of focus are to ensure that:

- a) companies have the appropriate mix of directors on their boards; and
- b) remuneration resolutions for both the board members and staff are reasonable and include a clearly defined relationship to corporate and/or individual performance.

Board composition

Colonial First State prefers to see a board of directors with diversified backgrounds and capabilities. A good mix of independent and non independent directors, plus a strong track record of performance are also important.

We believe companies have broadly improved across these areas in recent years, particularly since the ASX introduced its Corporate Governance Guidelines.

Colonial First State has always encouraged boards to present these attributes. Where these attributes are not present, Colonial First State acts not only by voting against proposals but, more importantly, through communication with company management and the company chairman.

Colonial First State voted against a number of directors' appointments last financial year. Our major concerns centred around:

- Boards having too few independent directors, or resolutions that weaken the power of non-executive directors.
- Directors not seeking re-election. We aim to ensure at least a third of directors seek re-election each year on a rotating basis.
- Ensuring that company chairman and directors have the appropriate skill-set to match the needs of the business.
- Directors with weak track records seeking election or re-election.

- Ensuring non-executive directors are not on too many boards, to ensure their contribution to the company is not diminished.

Remuneration

Colonial First State aims to ensure that the remuneration schemes for company board members and staff are not excessive or of a short term nature. A clearly defined relationship is required between the proposed remuneration and corporate and/or individual performance.

We monitor company option and remuneration packages and vote against all resolutions that are excessive or unjustifiable, given a company's or director's performance.

In some cases Colonial First State's opposition has helped prevent resolutions from reaching the voting stage. This was the case in October last year where our opposition to News Corporation's issuance of options to senior management assisted in bringing about a withdrawal of the plan. The package lacked the required performance hurdle to act as an incentive to staff.

We also voiced opposition to Harvey Norman's plans to reprice options for its directors to below their existing levels. Our concerns appear to have contributed towards Harvey Norman withdrawing its plans.

Colonial First State voted against several remuneration related resolutions last year. We will not in general support resolutions where:

- there are no appropriate or clearly defined performance hurdles
- options are offered to non-executive shareholders
- proposed incentive schemes are too short term in nature

From 1 July 2004, Annual Reports must include a "Remuneration Report" containing the remuneration of all directors and the top five remunerated executives of the listed company and the consolidated group (ie up to 10 executives), and the Board's policy for determining remuneration.

Shareholder approval will be required for an agreement to pay a prospective executive or director a retirement benefit greater than his or her final average salary multiplied by the number of years of service (with an upper limit of 7 years).

We continue to press for maximum disclosure of information both in corporate reporting and at Annual General Meetings. There has been a marked improvement in company transparency over the last few years and Colonial First State will continue to encourage companies to maintain this trend.

While Colonial First State supports the improvement in industry corporate governance procedures, we also recognise that companies need to be given



the appropriate flexibility to carry out their job of making profits for shareholders. We will support corporate governance issues where it adds value to investors. However we will not support those issues if they become too onerous and counterproductive for corporate Australia and investors.

For a summary of our Guidelines and Principles for Corporate Governance, please go to www.colonialfirststate.com.au/company

* July 2003 – June 2004