

Colonial First State Corporate Governance Update

Year to 31 December 2004

Colonial First State (CFS) is a major shareholder in many listed Australian companies. This places us in a position of responsibility. It also provides CFS and 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.

CFS plays an active role in the corporate governance process. We aim to encourage management and boards to make decisions that are in line with shareholder interests. We do this via direct contact, correspondence with companies and through exercising voting rights.

This report aims to give an update on our corporate governance activity over the last twelve months and provide some insights into the way CFS votes on company resolutions.

Our voting record over the past year

CFS aims to vote on all resolutions, at all company meetings in which our funds have investments. In the last 12 months* CFS voted at 438 meetings on approximately 1900 resolutions. Each resolution is considered separately by the portfolio managers and in the last year 86% of resolutions were supported, 9% were opposed and we abstained on 5%.

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.

Aggregate Voting summary*

	Resolutions	For	Against	Abstain	No Action
Number	1918	1648	182	88	Zero
%		85.9%	9.5%	4.6%	

80% of the meetings took place in the second half of the year as most annual general meetings take place between September and November.

CFS voted against 182 resolutions in the last year. The major reasons for voting against resolutions centred around three main categories; director/ executive remuneration, the issuance of options to directors and the re-election of directors.

Increases to director/executive remuneration

CFS voted against remuneration related resolutions where:

- remuneration packages were considered excessive or unjustifiable given company or director performance.
- management or directors have failed to deliver on promises
- management or directors had received sufficient increases in remuneration in previous years
- reasons for remuneration or performance hurdles were not clearly defined or were too short term in nature.
- termination payments were excessive

Examples of where CFS voted against a resolutions dealing with director or executive remuneration included; Iluka Resources, Hills Motorway, Billabong, David Jones, Boom Logistics, Bluescope Steel, Cochlear, Boral, Toll Holdings, Challenger, Bank of QLD, Healthscope, Brambles, Colorado Group.

Issuing options to directors

CFS voted against remuneration related resolutions where:

- there were no or insufficient performance hurdles
- recent performance of directors had been lacklustre
- options were issued with the exercise price below the current spot price
- options were being issued to non-executive directors

Examples of where CFS voted against resolutions to issue options to directors included; Alinta, Kresta, Sims Group, Sino Gold, Straits Resources, Arc Energy, Village life, Maxitrans, Sirtex and Hills Industries.

Re-election of directors

CFS will not support the re-election of board members where:

- independent board members have been on the board too long and can no longer be considered independent.
- not enough independent board members
- the appointment does not bring the appropriate mix of directors/ skills to the board
- board is too large
- a member's performance has been disappointing or lacklustre
- non-executive directors are on too many boards already

CFS will support resolutions where appropriate

While CFS is active in opposing resolutions which we feel are not appropriate or in the best interest of unit holders, we do recognise that good corporate governance also involves enabling company management and board members to do their jobs.

In many cases increases in remuneration, provided it is accompanied by the appropriate performance hurdles and/or previous achievements may be appropriate and will be supported.

CFS has supported increases in directors fee's where a company's performance has been strong, the current fees are low by industry standards or where the directors have contributed to a turnaround in a business.

An example was CFS's support of Perpetual's increase in directors fees at its AGM in October 2004. CFS believed the increase in directors fees was reasonable given the company's performance and compensated some directors for the removal of their retirement benefits. The issue of shares and options to the company's managing director was also approved as they were sufficiently long term in their nature and included well defined performance hurdles.

Another example was CFS's approval of a resolution by Wesfarmers to increase remuneration for its directors. We supported the resolution because of the board's role in the company's excellent performance over the years.

CFS often has active communication with management prior to an AGM

CFS will often discuss issues with company management prior to voting on resolutions. This can result in the amendment or scrapping of a resolution prior to the AGM.

Many companies have come to CFS prior to their AGM's to gauge what level of support we would give for a particular resolution. In these situations we are able to communicate, prior to a resolution being voted on, the requirements necessary to meet our corporate governance guidelines. This gives companies an opportunity to amend their resolution and increase the likelihood of it being passed at the AGM. Amendments have included; improved clarification and/or raising performance hurdles, reducing the scale of the remuneration increase and increasing the term of the performance hurdles.

One high profile example of where communication with management was effective in changing a resolution was the case of News Corporation. Many investors including CFS had some concerns over News Corporation's plan to move its headquarters from Australia to Delaware in the US. There were concerns that the looser corporate governance requirements in Delaware could weaken the rights of shareholders. Specific concerns included the potential for the company to delist completely from the ASX, the Murdoch family's ability to sell its large stake to a third party without making a similar offer to existing shareholders and the potential for the company to issue super voting shares which could dilute the voting powers of existing shareholders.

CFS along with a number of other major intuitions raised these concerns with company management as did Corporate Governance International (CGI) and its US equivalent, Institutional Shareholder Services (ISS). As a direct result of the shareholder concern, the company amended its resolution and promised that super voting shares would not be issued, News Corporation would continue to have a listing on the ASX and that the Murdoch family would not sell shares to a third party without a takeover bid being launched.

The concession by management based upon shareholder opposition illustrates how the corporate governance framework in Australia can work to protect shareholder interests.

Use of Corporate Governance International (CGI)

CFS's regular contact with management means that in general we are able to make informed decisions regarding the appropriateness of remuneration increases and board re-appointments.

CFS uses Corporate Governance International (CGI) to assist in making voting decisions and often votes in line with their recommendations. While we use CGI as a reference, we do not blindly follow their recommendations. Rather, voting decisions are based on our understanding and communications with company management.

Corporate governance isn't just about proxy voting

Corporate governance is not just about how we vote on resolutions. As a major shareholder in many of Australia's largest listed companies, CFS also plays a role in advising chairmen and senior executives on corporate governance practices.

We have ongoing dialogue with many company chairman and senior executives to encourage compliance with appropriate corporate governance practices and to give them feedback on how we see boards of directors performing their duties.

Different portfolios within CFS may vote differently

It should be noted that CFS has two Australian equity investment teams. Both teams adhere to the same corporate governance principles based upon the ASX's Corporate Governance Guidelines and in most situations vote in the same manner. On rare occasions, interpretation of these guidelines can differ and the teams will not vote the same way. An example of this difference was the News Corporation resolution to move domicile. One team voted for the resolution while the other voted against. The difference in voting on this issue

illustrates the teams independence and highlights how views on what is good for shareholders can differ.

Worrying trends facing the industry

We have recently observed a trend of declining quality of independent expert reports with respect to takeover targets. This is disappointing given that investors rely on these independent reports to assess the worth of a takeover target and to make decisions on whether or not to accept a takeover offer.

Our concern is that these independent expert reports are becoming less independent of the takeover company and less expert. Many of these reports have used inappropriate or poorly communicated assumptions. Valuations are at times questionable and at odds with valuations ascribed by the broking community.

We are encouraged to see that ASIC has recently announced that it is working on a new policy proposal paper to address this serious issue. We will be taking up ASIC's request for industry comment and submitting our recommendations shortly. We hope the final paper will ensure that shareholders receive accurate and independent information to assist in their investment decisions.

Conclusion

We continue to press for maximum disclosure of information both in corporate reporting and at annual general meetings. CFS supports the improvement in industry corporate governance procedures, but 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 they add value to investors. However we will not support those issues if they become too onerous and counterproductive for corporate Australia and investors.

For a brief summary of our Corporate Governance Proxy Voting Policy, please go to <http://www.colonialfirststate.com.au/company/>

* 31 Dec 2003 – 31 Dec 2004