

## MARKET RELEASE

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10 November 2003

### **CHALLENGER UNVEILS CORPORATISATION PROPOSAL**

10 November 2003, Sydney - Diversified financial services company Challenger Financial Services Group (Challenger - ASX code:CFG), today released details of a corporatisation proposal to be put to unitholders at a general meeting in Sydney on 22 December 2003.

On 9 September 2003, Challenger announced it was considering the feasibility of corporatising its trust structure, resulting in the Responsible Entity function being internalised and eliminating the requirement to pay ongoing management and performance fees to an external company, CPH Management Limited. The current annual management fee is approximately \$7.3 million and will increase to over \$16.5 million if Challenger's unit price exceeds \$0.60.

Detailed consideration of the feasibility has been completed and put to the independent directors of the Board who have unanimously voted in favour of proceeding with the proposed restructure.

Challenger's Chief Executive Officer, Chris Cuffe said today the proposed restructure would provide investors with greater transparency and would address investor concerns around the Group's unusual trust structure.

"There is an overwhelming logic behind plans to corporatise Challenger," Mr Cuffe said. "The existing trust structure is unusual for a financial services business and has received criticism from a number of existing and interested investors."

"We believe investors will benefit through the enhanced corporate governance and increased transparency of a company structure, and particularly through the removal of the ongoing management and performance fee arrangements with CPH Management."

Since September, the independent directors of CPH Management Limited, the Responsible Entity of Challenger, have given thorough consideration to the proposal and believe corporatisation, through the proposed restructure, is in the best interest of all Challenger unitholders.

Director Mr Mike Tilley said today, "the independent directors unanimously support the corporatisation proposal. Corporatisation is in Challenger's best interest for strong financial, commercial and governance reasons. The management and performance fees paid to CPH



Management will increase as the business develops. The price being paid to CPH Management is good value for unitholders in our assessment and in the assessment of the independent expert Grant Samuel. We recommend unitholders vote in favour of the resolutions,” Mr Tilley said.

The corporatisation proposal requires all Challenger unitholders to become shareholders in a new listed company.\* Challenger unitholders will be required to vote on a number of resolutions to effect the restructure that will result in CPH Management retiring as the Responsible Entity.

As outlined in the proposal, CPH Management will be compensated for foregoing its rights to ongoing management and performance fees.

Challenger will pay CPH \$96 million for CPH Management agreeing to retire as the Responsible Entity. In return, CPH will pay Challenger \$36 million to acquire Challenger’s interest in Jurlique International Pty Ltd and \$60 million to acquire 300 million non-transferable call options over shares in the new company with an exercise price of \$0.65 on a 10 year term; resulting in no net cash outflow from the transaction. The new company will also assume ongoing liability for the costs of CEO remuneration and directors’ fees.

At the meeting scheduled for 22 December, unitholders will be asked to consider and vote on the resolutions required for the restructure to proceed. The resolutions will be interdependent and CPH Management will not be entitled to vote. There will be six resolutions, five of which require 50% approval by investors; a change to the constitution will require a 75% approval.

At the same meeting of unitholders, the Board of CPH Management also proposes to seek unitholder approval for a long term incentive plan (LTIP), to replace existing arrangements for a number of Challenger’s executive team and to provide an extension of the LTIP to other members of the executive team. The LTIP will be capped at 10% of issued capital and is expected to apply to more than 60 executives and senior managers.

Participation will be offered to key contributors who are likely to have a significant impact on business performance. Under the LTIP, the remuneration achieved by participating management will be directly linked to total shareholder return, both through share price appreciation and dividends, thus aligning executive and shareholder interests.

Management will be restricted from selling shares granted under the LTIP over its 5-year duration with participating shares vesting in phases skewed towards the end of the 5 years. As a result, management will be incentivised to ensure that business decisions are being made in the best long term interests of the company.



“It is the view of that Board that a long term incentive plan is essential to retain and attract the highest quality employees for the Challenger business. Those incentive arrangements need to reflect Challenger’s current business profile and market position,” Mr Tilley said.

“The business has great potential but that potential will only be realised through our ability to attract and retain an outstanding team. The structure of the long term incentive plan reflects where the business is today but more importantly where the Board expects it will be in five years time. For a large portion of participants, 80% of the plan requires a 15 per cent annual compound return for shareholders from April 2005. There’s nothing relative about it; that’s an absolute hurdle.”

Mr Tilley said Grant Samuel, the independent expert appointed to review the corporatisation proposal, has found the proposal to be “fair and reasonable and in the best interests of non-associated unitholders.” Mr Tilley also said the Board had engaged the services of remuneration consultant John Egan to evaluate the proposed executive remuneration and long term incentive plans.

The Disclosure Document contains complete information about the Corporatisation proposal and long term incentive plan. It has been lodged with ASX and ASIC and is available on the Challenger website at [www.challenger.com.au](http://www.challenger.com.au). Documents will also be sent to unitholders in the last week of November. Unitholders living in Australia can also contact the Challenger Unitholder Information Line on 1 300 733 343. Overseas unitholders can contact the Challenger Information Line on 612 9240 7450.

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\*If the corporatisation proposal is approved by unitholders in December, the new company will be known as Challenger Financial Services Group Limited. The ASX code is expected to be “CGF”.

“No securities in Challenger Financial Services Group Limited will be issued on the basis of the Disclosure Document except those issued pursuant to the Restructure of CFSG. All notices of meeting for the Meeting sent to Unitholders are included in or accompanied by a copy of the Disclosure Document. The Disclosure Document is available on the Challenger website [www.challenger.com.au](http://www.challenger.com.au).”