

Corporate governance update

August 2007

Introduction

Colonial First State Global Asset Management is a major shareholder in many Australian listed companies. As a result we are in a position of influence on matters of corporate governance, social responsibility and sustainability.

Corporate governance addresses issues that face boards such as financial policies, disclosure of information, standards of corporate behaviour and performance. Colonial First State Global Asset Management is an active shareholder. We achieve this through the exercise of proxy votes at company meetings and through direct discussion with company management and boards of directors.

At Colonial First State Global Asset Management, we take this responsibility seriously. We will vote on all issues at company meetings where we have the authority to do so. We believe that voting rights are valuable and should be managed like any other asset. We act in the best interests of our investors through our proxy voting powers and through our direct discussions with company management.

Our aim is to select companies that will provide our investors with solid returns over time. We believe that there is a link between companies with good corporate governance principles and good shareholder returns.

This report aims to give an update on our corporate governance practices for the first-half of 2007. The report looks at how Colonial First State Global Asset Management voted on key issues such as director elections/re-elections, executive remuneration and non-executive remuneration. The report covers our Australian equity funds investments in Australian listed companies.

The report also considers the new Australian Securities Exchange (ASX) Corporate Governance Principles and an update on Colonial First State Global Asset Management's commitment to the United Nations Principles for Responsible Investment.

Six-month summary

Colonial First State Global Asset Management has a goal to vote on all resolutions put forward at company meetings that our funds hold shares in¹. Each resolution is carefully considered by the fund's portfolio manager, with guidance taken from our Corporate Governance Principles.

During the first six-months of 2007, Colonial First State Global Asset Management voted at 93 company meetings on 457 resolutions. At these meetings 96% of resolutions were supported, 2% were

opposed and 2% were abstentions. The first-half of the year is a relatively quiet time for company meetings, with the second-half of the year the busier time.

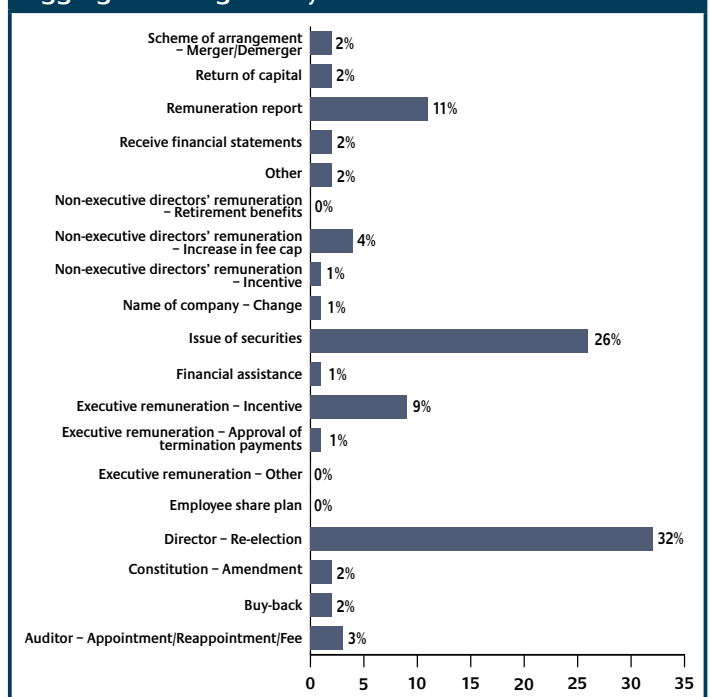
Most of our abstentions are of a technical nature. Colonial First State Global Asset Management is restricted from voting for the approval of share issues when we have participated in the placement. Other abstentions resulted from non-binding resolutions on company's remuneration reports.

Aggregate voting history

	First half 2007	First half 2006	First half 2005	First half 2004
# company meetings	93	78	68	88
# resolutions voted on	457	394	289	392
% resolutions supported	96%	87%	79%	86%
% resolutions against	2%	9%	5%	8%
% resolutions abstained	2%	4%	16%	6%

The chart below shows the type of issues that were voted on during the recent proxy voting season. Director elections/re-elections and the issue of securities were the most common topics for resolutions. Executive remuneration and remuneration reports were also common issues.

Aggregate voting history



¹ The Corporate Governance Update covers Colonial First State Global Asset Management's proxy voting patterns on Australian listed companies held by our Australian domiciled funds.

Over the past twelve months we have seen a pick up in mergers, takeovers and acquisitions. This has raised a number of corporate governance issues such as disclosure, conflicts of interest and fair conduct. Colonial First State Global Asset Management has a policy to meet both parties in a hostile takeover situation at least once before making a decision. Any decision made will be in the best interests of our investors.

We can see the increased takeover activity through the proportion of resolutions related to schemes of arrangement – merger/ demerger. In the second-half 2006, there was only one resolution on this topic, this increased to 10 in the first-half 2007. While overall this is not a high proportion, it does demonstrate how our portfolio managers have had to pay increasing attention to this activity.

Update on Director Elections/Re-elections

Board composition is a key corporate governance issue, and one that Colonial First State Global Asset Management pays a high level of attention to. Colonial First State Global Asset Management examines each directorship nomination to determine whether the individual is a suitable candidate given their industry experience, skills, background, other responsibilities and composition of the board.

Colonial First State Global Asset Management has particular corporate governance ideals regarding the number of executive directors versus non-executive directors. Our business also recognises that strong candidates will have other responsibilities and can bring skills and competencies to the board despite these other commitments.

During the first-half of 2007, Colonial First State Global Asset Management voted on 148 resolutions for director elections/ re-elections, we supported 98% of these and abstained on 2% of resolutions.

Director elections/re-elections	First half 2007	First half 2006
# company meetings involving director elections/re-elections	56	52
% company meetings	60%	67%
# resolutions involving director elections/re-elections	148	130
% director elections/re-elections supported	98%	97%
% director elections/re-elections against	0%	3%
% director elections/re-elections abstained	2%	0%

During the most recent proxy voting season, Colonial First State Global Asset Management did not vote against any director elections/re-elections. This is unusual given our high standards for board composition and we hope this high standard of board appointments continues.

Reasons for voting against the election/re-election of directors typically include:

- Other responsibilities were too demanding to allow appropriate time for new board duties
- Inappropriate board structure such as too many executive directors
- Poor performance or inappropriate experience of the appointment in question.

Update on executive remuneration

Executive remuneration is a high profile and important corporate governance issue. Colonial First State Global Asset Management believes that well defined and appropriately structured packages are vital in aligning the interests of management and shareholders in the long-term.

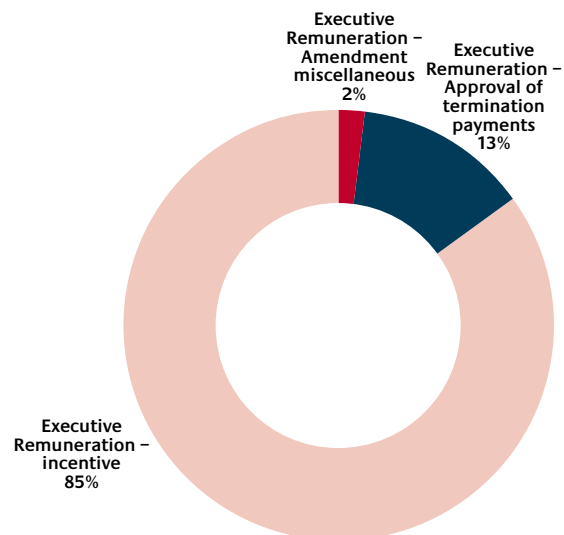
Colonial First State Global Asset Management believes there should be full disclosure of total remuneration packages and will actively seek this out. We also seek justification for levels of remuneration.

During the first-half of 2007, we voted on 46 company resolutions involving executive remuneration, supporting 85% of resolutions and voting against 15%.

Executive remuneration	First half 2007	First half 2006
# company meetings involving executive remuneration	21	15
# executive remuneration resolutions voted on	46	38
% executive remuneration resolutions supported	85%	95%
% executive remuneration resolutions against	15%	5%
% executive remuneration abstained	0%	0%

* Does not include remuneration reports. Colonial First State Global Asset Management reports on these resolutions separately. See below.

Resolutions on executive remuneration can include the approval of termination benefits and executive incentive schemes such as options, issue of shares and bonuses. The breakdown of resolutions is shown below:



Executive remuneration resolutions involving incentive payments are the majority of resolutions dealing with executive remuneration. Appropriate remuneration packages are important as they align management and shareholders interests and should contribute to shareholder value over the longer term. Colonial First State Global Asset Management understand that to keep good managers, companies need to remunerate top executives accordingly and this includes incentive payments.

Executive remuneration packages we voted against in the first-half of 2007 included Straits Resources and Toll Holdings. We voted against resolutions to approve termination payments for executives and directors of Toll Holdings. During the first six months

of 2007, Toll Holdings undertook a strategic restructure which saw its transportation infrastructure assets spun-off into a separate company, Asciano. As a result, revised executive remuneration termination benefits for Toll Holdings were put to shareholders. Colonial First State Global Asset Management is of the belief that payments on termination to executives should not be excessive. The reasons we voted against the resolutions included:

- The structure of the termination benefit package and the lack of information available
- The inability to calculate an approximate amount of the termination benefit package
- The termination benefit payment would have been paid if the company was the subject of a takeover bid. We did not think this was appropriate given the recent restructure of the company.

In the case of Straits Resources, we voted against the issue of incentive shares to executive directors. The purchase of the shares by the executive directors was to be funded by a limited recourse interest fee loan by the company; we were not in favour of this proposal.

Colonial First State Global Asset Management also aims to send a message to companies by supporting executive remuneration packages. Voting in favour of their proposals sends a clear signal to companies that we support their practices. It also allows companies that receive a high proportion of 'against' votes to see that appropriate packages that will be supported. Our March 2007 update highlighted features that we support in executive remuneration packages and what we hope companies will implement.

We continue to monitor our voting patterns in relation to executive remuneration packages to see if the standard is improving. We are particularly interested in seeing whether a company where we voted against a resolution previously has 'got the message'.

Colonial First State Global Asset Management maintains an active dialogue with company management. As a business, we are actively sought out by companies for our views on their remuneration structures before company meetings. Through this forum we are able to express our expectations and requirements for remuneration packages and improve the standard or resolutions put forward at company meetings.

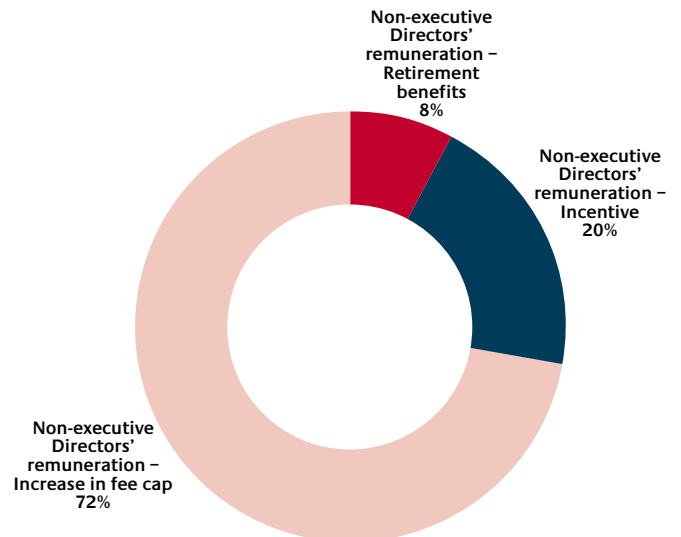
The table below shows the voting patterns through time have been mixed. The trend of resolutions supported is on the increase and we hope this continues over time. We will be watching with interest executive remuneration resolutions and participating in the busy second half 2007 proxy season.

Executive remuneration

	First half 2007	Second half 2006	First half 2006	First half 2005
# company meetings involving executive remuneration	21	69	15	16
# executive remuneration resolutions voted on	46	181	38	22
% executive remuneration resolutions supported	85%	78%	95%	77%
% executive remuneration resolutions against	15%	22%	5%	23%
% executive remuneration abstained	0%	0%	0%	0%

Update on non-executive remuneration

In the first-half of 2007, we voted on 25 resolutions involving non-executive remuneration. These can be broken down into resolutions relating to incentive based director fees, retirement benefits and base director fees. The majority (72%) of resolutions were increases to base director fees.



Of the 25 resolutions on non-executive remuneration, we voted in favour of 96% of resolutions and voted against 4%. This was an improvement from the first-half of 2006 where Colonial First State Global Asset Management voted in favour of 91% of resolutions and voted against 9%.

Non-executive remuneration

	First half 2007	First half 2006
# company meetings involving non-executive remuneration	21	14
% company meetings	23%	18%
# resolutions involving non-executive remuneration	25	22
% non-executive remuneration resolutions supported	96%	91%
% non-executive remuneration resolutions voted against	4%	9%
% non-executive remuneration resolutions abstained	0%	0%

Colonial First State Global Asset Management recognises that board responsibilities are becoming more complex and increasingly time consuming, and directors need to be rewarded accordingly. Adequate compensation is required to attract and retain high quality board members.

At the same time we are active in voting against increases where we believe the increase is excessive, the board has performed poorly, there is no justification for the increase or where there is poor board composition. Colonial First State Global Asset Management is also of the view that options for non-executive directors should not be granted.

Colonial First State Global Asset Management voted against non-executive director remuneration resolutions put forward by Sally Malay Mining. These resolutions involved the granting of unlisted incentive options to non-executive directors. We are opposed to granting options to non-executive directors as we feel they do not appropriately align the interests of shareholders and non-executive directors. We do however support the notion that non-executive directors can be paid in the stock of the company.

Update on remuneration reports

In our last three Corporate Governance Updates, we discussed the introduction of non-binding votes on remuneration reports. The remuneration report aims to increase the transparency of a company's remuneration policies, practices and structures.

In the first proxy season involving non-binding remuneration reports in 2005, we initially took the approach that a 'settling in' period was required. Remuneration reports that revealed remuneration policies, procedures and practices clearly but were contentious were not necessarily opposed. Either an abstention vote or an 'in favour' vote was cast and the matter was raised with the company.

Since this time, Colonial First State Global Asset Management has taken a harder line on remuneration reports, having raised our expectations. We are pleased to report that companies have been living up to our expectations, with the percentage of resolutions we supported rising over the past three periods.

In the first-half of 2007, Colonial First State Global Asset Management voted on 48 remuneration report resolutions. We supported 45, opposed 2 and abstained on 1.

The table below shows how these statistics differed from the prior periods.

Remuneration reports			
	First half 2007	Second half 2006	First half 2006
# company meetings involving remuneration reports	47	196	39
% company meetings	51%	79%	50%
# resolutions involving remuneration reports	48	196	39
% remuneration report resolutions supported	94%	92%	77%
% remuneration report resolutions voted against	2%	7%	13%
% remuneration report resolutions abstained	4%	1%	10%

Despite the improvement, Colonial First State Global Asset Management will continue to vote against remuneration reports containing contentious and inappropriate remuneration packages.

Revised Corporate Governance Principles released by the Australian Securities Exchange

Although Colonial First State Global Asset Management has its own guidelines and principles for corporate governance, it is always worthwhile to review other guidelines in the market place.

In August 2007, the Australian Securities Exchange (ASX) released its first revision to principles that were first issued in March 2003. The ASX consulted with market participants, such as companies, fund managers and the general community to determine the new principles.

We were interested to note the amendment to Principle 2: Structure the Board to Add Value. This sets out guidelines that companies should take into account when determining the independence of a director, rather than providing a definition of independence. We are pleased to see that board composition is once again highlighted as a key corporate governance issue.

Another major finding to emerge from the review was the significant interest in sustainability and corporate social responsibility issues and the relationship with good corporate governance principles. The growing interest in corporate social responsibility and environmental issues is positive news for Colonial First State Global Asset Management's commitment United Nations' Principles for Responsible Investment, which is discussed below.

An update on our commitment to the United Nations Principles for Responsible Investment

On 1 March 2007 Colonial First State Global Asset Management became a signatory to the United Nations Principles for Responsible Investment ('PRI'). This is a voluntary program that encourages best practice in environmental, social and corporate governance issues.

Over the past four months there has been considerable activity in addressing how environmental, social and corporate governance ('ESG') considerations can be better integrated into our investment processes with a view to generating superior investment returns.

Colonial First State Global Asset Management signed the PRI in response to growing demand from our investors, in conjunction with our commitment to the active management of our investments and our desire for increased transparency on ESG issues.

Colonial First State Global Asset Management found that there was a growing demand from our investors for the improved integration of ESG issues into investment processes. Our business has always considered ESG issues in varying degrees; the PRI simply provides a framework to integrate these considerations more formally and uniformly into our investment processes.

As our report on our proxy voting patterns show, Colonial First State Global Asset Management is an active shareholder in many large Australian listed companies. We address this responsibility by meeting with top management and expressing our opinion on their corporate governance practices. By signing these Principles, we formally extend our demand for good practices to environmental

and social issues. By encouraging the companies in which we invest to look at their own ESG practices, we are encouraging higher levels of transparency and responsibility from the business community.

Colonial First State Global Asset Management believes that the consideration of ESG issues in our investment process should lead to better risk / return outcomes for our funds, which will, ultimately, improve long-term returns for our investors. Growing evidence suggests that companies that manage ESG issues are more likely to enhance long term investment returns through reduced risk, lower operating costs, enhanced reputation, capturing emerging market opportunities and attracting the best talent. By formally incorporating the Principles in our investment process, our fund managers will potentially have more complete information upon which to make investment decisions.

How is Colonial First State Global Asset Management implementing the PRI?

Colonial First State Global Asset Management is aiming to embed ESG considerations in a formal and uniform manner into the research, analysis and investment decisions of each asset class. We will endeavour to assess and understand how the companies we invest in are managing ESG issues. We will also encourage companies to improve their ESG performance and disclosure.

By adopting the PRI, Colonial First State Global Asset Management is not changing its investment philosophy to that of an ethical investment company. Ethical investing generally involves the exclusion of companies based on a personal assessment of their business operations, such as those engaged in the alcohol, tobacco and gambling industries. While we see a place in the market for funds based on specific ethical investment premise, this is not the route our responsible investment policy will generally take. We do not aim to reduce the investment universe for our funds through ethical screening, but rather seek to play a more constructive role with all companies through the measurement of ESG practices.

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