

Corporate governance update

August 2006

Introduction

Colonial First State Global Asset Management (CFS GAM) is a major shareholder in many Australian listed companies. This places us in position of influence on matters of corporate governance. At CFS GAM, we take this responsibility seriously.

CFS GAM plays an active role in corporate governance matters. We achieve this through the exercise of proxy votes at company meetings and through direct discussion with company management and boards of directors.

CFS GAM believes that the voting rights that come with share ownership are valuable and an important tool of investment management. As an investor on behalf of many Australians, CFS GAM is required to act in the best interests of our investors.

This report aims to give an update on our corporate governance practices for the first-half of 2006. The report looks how CFS GAM voted on key issues such as executive remuneration, non-executive remuneration and director elections/re-elections.

We also look at the issues of non-binding remuneration reports, proxy voting patterns through time and whether there is link between companies with good corporate governance practices and good investment returns.

Six-month summary

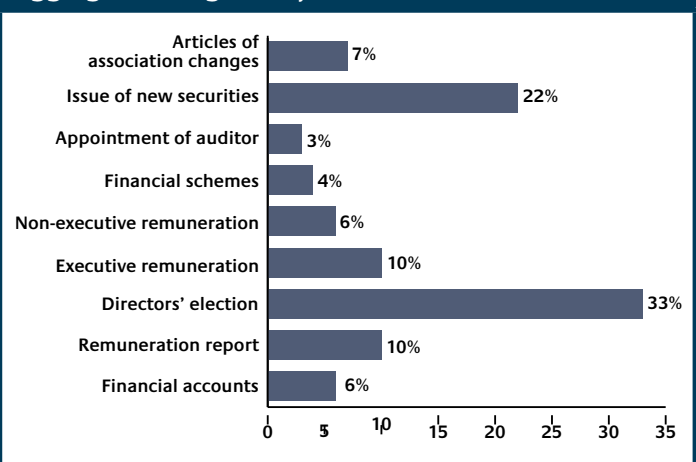
CFS GAM is committed to voting on all resolutions put forward at company meetings that our funds hold shares in. Each resolution is carefully considered by the fund's portfolio manager, with guidance taken from our Corporate Governance Principles.

During the first six-months of 2006, CFS GAM voted at 78 company meetings on 394 resolutions. At these meetings 87% of resolutions were supported, 9% were opposed and 4% were abstained on.

Most of our abstentions are of a technical nature. CFS GAM 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 financial accounts.

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 new securities were the most common issues.

Aggregate voting history



Update on Executive Remuneration

CFS GAM continues to monitor executive remuneration packages closely. This remains a high profile and important corporate governance issue. We believe that well defined and appropriately structured packages are vital to aligning the interests of management and shareholders in the long-term.

During the first-half of 2006, we voted on 38 company resolutions involving executive remuneration. CFS GAM supported 36 of these resolutions and voted against 2..

Executive remuneration

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

The reasons for not supporting executive remuneration plans were:

- Lack of performance hurdles for the long-term incentive plan.
- Inappropriate performance hurdles that are not linked to total shareholder return.

Executive Remuneration packages we voted against were ABB Grain and Oxiana.

Aggregate voting history

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

Just as important as voting against an executive remuneration resolution, is when CFS GAM supports executive remuneration packages. This helps to send a clear signal to companies that we support their practices. It also assists companies where we have rejected executive remuneration resolutions examine supported resolutions and see appropriate packages that will be supported by us. This should enhance the alignment between management and shareholders and contribute to shareholder value over the longer term.

We also recognise that to keep good managers, companies need to remunerate top executives accordingly. Executive remuneration packages that we supported over the first six-months of the year included National Australia Bank, Corporate Express, GPT Group, Oil Search, Sigma Pharmaceuticals, Babcock & Brown and ABC Learning.

Features we support in executive remuneration packages include:

- Reasonably demanding performance targets.
- Forward looking performance targets.
- Performance targets that are not open to accounting manipulation.
- Performance targets that are focussed on shareholder return.
- Performance targets which will not allow awards to be vested when the company's performance is at, or below, the median performance of an appropriate group of similar companies.

Update on non-executive remuneration

To attract and retain good quality non-executive board members CFS GAM recognises that adequate compensation must be awarded. We are active in supporting resolutions to increase director fees when they enable companies to pay market rates and keep key board members. CFS GAM recognises that board responsibilities are becoming more complex and increasingly time consuming, and directors need to be rewarded accordingly.

CFS GAM will support increases when:

- The current pool of funds has almost been fully utilised.
- No increase in the pool has occurred for some time.
- Flexibility is required to maintain market rates.
- An increase is required to attract and retain key directors.
- Past strong company performance is due to director skill.

Most resolutions on non-executive remuneration relate to increases in the maximum aggregate level of fees that can be paid to each company's non-executive directors or other forms of compensation such as options.

In the first-half of 2006, we voted on 22 resolutions involving non-executive remuneration. We supported 20 of these and rejected 2.

We rejected resolutions for Record Investments and Orica Limited. The most common reason for CFS GAM rejecting resolutions is the total increase in the pool of funds is excessive and unwarranted.

Increases were supported for companies such as Australian Wealth Management, GPT Group, Lihir Gold, AMP Limited and Oil Search.

Non-executive remuneration

	First half 2006
# company meetings involving non-executive remuneration	14
% company meetings	18%
# resolutions involving non-executive remuneration	22
% non-executive remuneration resolutions supported	91%
% non-executive remuneration resolutions voted against	9%
% non-executive remuneration resolutions abstained	0%

Update on Director elections/re-elections

One of the key components of corporate governance is the structure and composition of the board of directors. CFS GAM will examine each directorship nomination to determine whether the individual is a good candidate given their skills, background, other responsibilities and composition of the board.

With board responsibilities increasing and the business environment growing more complex and time consuming, CFS GAM is concerned about the increasing number of appointments board members accept. We pay close attention to other board appointments and highlight our concerns by contacting the company and/or by voting against the resolution.

CFS GAM does recognise that strong candidates have other responsibilities and can bring skills and competencies to the board even with their other responsibilities.

During the first-half of 2006 CFS GAM voted on 130 resolutions for director elections/re-elections. CFS GAM supported 126 of these and votes against 4 resolutions.

Director elections/re-elections

	First half 2006
# company meetings involving director elections/re-elections	52
% company meetings	67%
# resolutions involving director elections/re-elections	130
% director elections/re-elections supported	97%
% director elections/re-elections against	3%
% director elections/re-elections abstained	0%

Companies where we voted against the election or re-election of directors included MYOB and Gympie Gold.

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

- Other responsibilities were too demanding to allow appropriate time for new board duties.
- Inappropriate board structure.

CFS GAM supported the election/re-election of directors for investments such as National Australia Bank, Orica, Patrick Corporation, Australian Wealth Management, QBE Insurance, Lihir Gold and Aristocrat Leisure.

CFS GAM has corporate governance guidelines and principles that we adhere to except in exceptional circumstances. For director elections/re-elections the policies include:

- Non-executive directors are considered independent if they have not been former executives of the relevant company for a minimum of five years.
- Non-executive directors must balance their number of board appointments with their personal ability to provide a meaningful contribution to each board.
- Executive directors who have outside directorships need to ensure that their contribution to their current employer is not diminished.
- In most cases the role of Chairman and Chief Executive should be split. We consider that board changes involving the Chief Executive becoming Chairman or executive directors becoming non-executive is acceptable only if there is a clear majority of independent directors.
- With the exception of the Chief Executive, we expect all directors to seek re-election, with one third seeking election each year

Update on remuneration reports

In our last Corporate Governance Update we highlighted the introduction of non-binding votes on remuneration reports. The remuneration report aims to increase transparency of remuneration policies, practices and structures.

Given that the 2005 proxy season was the first with these resolutions, CFS GAM at the time 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. In the first-half of the 2006 proxy season, CFS GAM took a harder line on remuneration reports.

In the first-half of 2006, CFS GAM voted on 39 remuneration report resolutions. We supported 30, opposed 5 and abstained on 4. The table below shows how these statistics differ from the prior period.

Remuneration reports		
	First half 2006	Second-half 2006
# company meetings involving remuneration reports	39	164
% company meetings	50%	70%
# resolutions involving remuneration reports	39	164
% remuneration report resolutions supported	77%	57%
% remuneration report resolutions voted against	13%	9%
% remuneration report resolutions abstained	10%	34%

CFS GAM supported a great deal more remuneration reports than the previous period. Given the lacklustre quality of reports presented in the 2005 proxy period, it appears companies have improved the quality of reports. Of these resolutions, 77% of remuneration reports were supported this season compared with only 57% in the second-half of 2005. A positive trend is also seen the abstention votes, with only 10% of reports abstained on, compared with 34% the prior period.

The percentage of votes against rose slightly, from 9% to 13%. CFS GAM has ended its ‘settling in’ period and is willing to vote against remuneration reports containing contentious and inappropriate remuneration packages.

Is our message getting through?

CFS GAM takes its role in corporate governance practices seriously. 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 return. We were therefore interested to see whether our proxy voting and our conversations with companies were having an impact on corporate governance practices. As a result we decided to analyse our voting practices over time to see if there has been any substantial change. What we found has been promising.

Executive remuneration		
	First half 2006	First half 2005
# company meetings involving executive remuneration	15	16
% company meetings		
# executive remuneration resolutions voted on	38	22
% executive remuneration resolutions supported	95%	77%
% executive remuneration resolutions against	5%	23%
% executive remuneration abstained	0%	0%

As the above table shows there has been a substantial change in the percentage of resolutions that CFS GAM have supported in the key area of executive remuneration. In the first-half of 2005 we supported only 77% of executive remuneration packages while in the first-half of 2006, 95% of executive remuneration packages were supported.

Colonial First State has an open dialogue with the companies we invest in. We hope that our dialogue with companies has led to a change in the resolutions presented at company meetings and an improvement in corporate governance practices. The statistics certainly suggest this and time will tell if it continues.

It is not just about proxy voting

Corporate governance is more than proxy voting at company meetings. CFS GAM is in a position to influence the corporate governance of companies via discussions with management and board members.

We believe that direct dialogue with a company will give us a better appreciation of their strategy, potential problems and company management and also allows the company to understand our expectations and requirements as a shareholder. Dialogue also allows us to encourage compliance with appropriate corporate governance practices. All such contact is in accordance with the Corporations Act and CFS GAM follows the Investment and Financial Services Association (IFSA) guide on Corporate Governance.

CFS GAM is in constant contact with company chairman and senior executives. Through this we have a voice in company issues such as board appointments, senior executive appointments, capital management and financial reporting.

Good corporate governance and good investment returns

CFS GAM has long been a believer in the relationship between good corporate governance practices and good investment returns.

Goldman Sachs JB Were have researched this thesis in a report titled 'Good Corporate Governance = Good Investment Returns', released in June 2006. Results indicated that factors such as accounting quality, audit quality, board structure and remuneration have a large impact on investment outperformance or underperformance. Research shows that investments in top rated companies in these areas have outperformed, while the bottom rated stocks under each of the categories have underperformed.

At CFS GAM we incorporate a company's corporate governance practices into our consideration on whether to invest in that company. The Goldman Sachs JB Were research conclusion also confirms our belief of the importance of good corporate governance and commitment to improve corporate governance practices in companies in which we hold investments.