

Corporate governance update

March 2008

Introduction

Colonial First State Global Asset Management is a major shareholder in many Australian listed companies. As a result we are in a position to influence these companies' approach to environmental, social and governance issues.

Corporate governance addresses issues that face companies, in particular the board of directors. It involves financial policies, disclosure of information, standards of corporate behaviour, performance and environmental and social issues.

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 an integral component of investing, 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 direct discussions with company management; what we refer to as 'company engagement'.

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, social and environmental practices and good shareholder returns.

This report aims to give an update on our corporate governance practices for the second 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. This report covers our equity investments in Australian listed companies.

The report also provides an update on Colonial First State Global Asset Management's commitment to the United Nations Principles for Responsible Investment. We also look at our direct engagement with companies on environmental, social and governance issues.

Six month summary

Colonial First State Global Asset Management has a policy to vote on all resolutions put forward at company meetings in which our funds hold shares¹. Each resolution is carefully considered by the fund's portfolio manager and the company's equity analyst. Guidance is taken from our Corporate Governance Principles.

During the second half of 2007, Colonial First State Global Asset Management voted at 268 company meetings on 1455 resolutions. At these meetings we supported 87% of resolutions, 7% were opposed and we abstained from 6%. The second half of the year is the busiest time of the year for company meetings.

Colonial First State Global Asset Management is restricted from voting for the approval of share issues when we have participated in the placement and these resolutions are recorded as no action. The majority of our abstentions resulted from non-binding resolutions on company's remuneration reports and financial accounts.

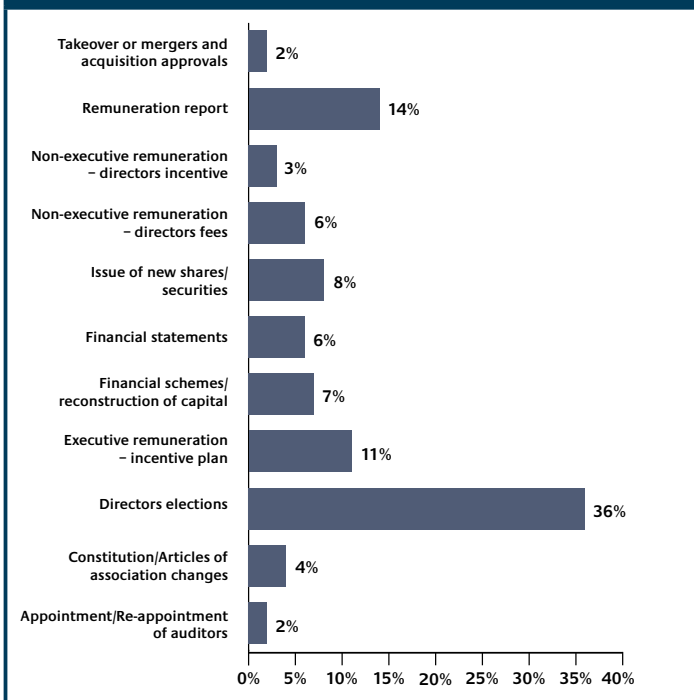
Aggregate voting history

	Second half 2007	Second half 2006	Second half 2005	Second half 2004
# company meetings	268	248	236	278
# resolutions voted on	1455	1366	1286	1526
% resolutions supported	87%	90%	83%	86%
% resolutions against	7%	8%	8%	9%
% resolutions abstained	6%	2%	5%	5%
% resolutions no action	0%	0%	0%	0%

The chart below shows the type of issues that were voted on during the recent proxy voting season. Director elections/re-elections and remuneration reports were the most common topics for resolutions. We are pleased to see the increased number of resolutions on remuneration reports, adding to the level of disclosure in the market place on the topical issue of executive remuneration.

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.

Aggregate voting history



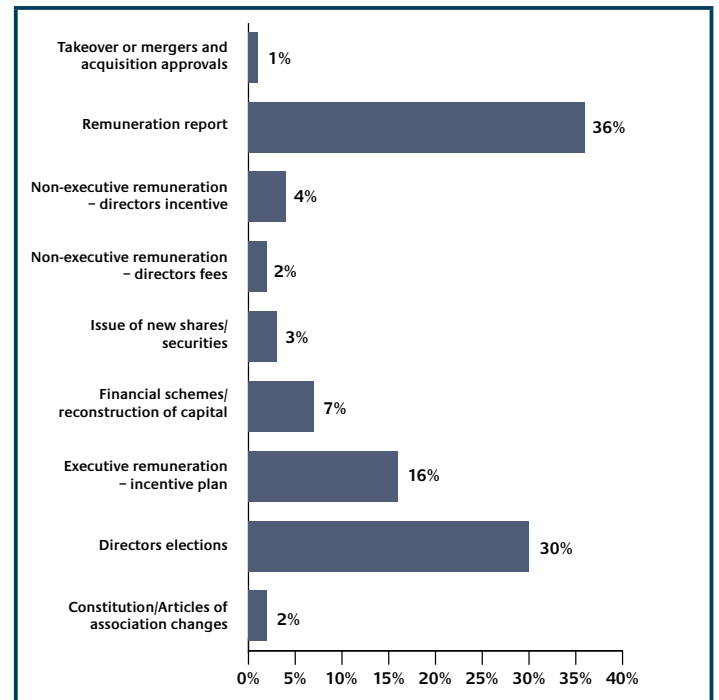
After a strong pickup in mergers, takeovers and acquisitions in the half-year to June 2007, this type of activity fell in the latter half of 2007. Sharemarket volatility, the rising cost of debt funding and risk aversion by investors saw this activity fall. This led to a reduction in the number of resolutions of this nature being put forward to investors. This also reduced the number of resolutions for the issue of securities. Instead there has been a pickup in the number of resolutions relating to financial schemes and the reconstruction of capital such as share buybacks, share splits and financial assistance.

A number of corporate governance issues such as disclosure, conflicts of interest and fair conduct continue to be raised. With the recent market volatility there has been an increase in the need for additional capital and financing and this has led to a higher number of resolutions on the subject. These resolutions need to be monitored and raise questions about the level of disclosure required for these types of transactions. Careful and detailed analysis is required to ensure that the best interests of shareholders are served and that transactions are conducted appropriately.

Where are we saying no?

On average, Colonial First State Global Asset Management is supporting more resolutions than in the past. However there remain a proportion of resolutions which we don't support. The bulk of these 'against' votes came from the contentious categories of Remuneration Report and Director Elections. Although remuneration reports make up only 14% of resolutions, they make up 36% of 'against' votes. This suggests that the general standard of remuneration reports is not yet adequate.

Colonial First State Global Asset Management will continue to vote against remuneration reports containing contentious and inappropriate remuneration packages. Given the high proportion of remuneration reports voted against, greater time and effort will have to be spent speaking to executives and board members to ensure they understand the high level of disclosure we as shareholders require and the high standards we expect for such reports.



Update on Director elections/re-elections

Board composition is a key corporate governance issue, and one that Colonial First State Global Asset Management pays close 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 the current composition of the board.

Colonial First State Global Asset Management has corporate governance principles regarding the number of executive directors versus non-executive directors and the overall board composition and responsibilities.

During the analysis process we will examine what other board or executive commitments the nominee has. While we acknowledge that it is common to have more than one directorship we also recognise that increasing demands for director's time can limit the level of responsibility they can effectively take on.

During the second half of 2007, Colonial First State Global Asset Management voted on 531 resolutions for director elections/re-elections, we supported 94% of these and voted against 6% of resolutions. The percentage of 'against' votes picked up slightly in the period, demonstrating our commitment to achieving the highest quality board composition possible.

Director elections/re-elections

	Second half 2007	Second half 2006
# company meetings involving director elections/re-elections	224	214
% company meetings	84%	86%
# resolutions involving director elections/re-elections	529	543
% director elections/re-elections supported	94%	94%
% director elections/re-elections against	6%	4%
% director elections/re-elections abstained	0%	1%
% director elections/re-elections no action*	0%	1%

During the most recent proxy voting season, Colonial First State Global Asset Management voted against 31 resolutions involving director elections/re-elections.

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.
- Question marks over the classification of the board member as independent versus non-independent.
- Inappropriate board structure such as too many executive directors.
- Poor performance or inappropriate experience of the board nominee.

Director election/re-election resolutions were voted against for AGL Energy, Goodman Fielder, Auckland International Airport, Cabcharge, Incitec Pivot, Ramsay Health Care, Leighton Holdings and West Australian Newspapers.

Colonial First State Global Asset Management voted against a director election-re-election for AGL Energy. We had concerns over the nominee's classification as independent. Our Corporate Governance Policy guidelines state that a director is classified as independent if they have not been an executive of the company in the past 5 years. In the case of AGL Energy we were concerned that the length of tenure of the nominee as an independent director was too long and raised the question that the nominee no longer could be considered independent. The nominee in question had been a serving independent board member for over 15 years. This raised the need for a new independent director to maintain an ideal composition of the board.

Another example of where we voted against the election of a board nominee was Incitec Pivot. In this case we felt that the nominees' other responsibilities as the Chief Executive Officer of a major listed Australian company were such that they could not provide the attention required and the time to fulfil the duties and responsibilities of being an independent director. Increased complexity and the extent of board responsibilities have meant that board members are required to devote more time to individual positions than ever before. We will continue to monitor the workloads of board members and will vote against nominees where we believe their time is too stretched to effectively contribute to the company and its shareholders.

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, especially increases. We maintain an active dialogue with company management and are actively sought out by companies for our views on remuneration structures before resolutions are constructed. 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.

During the second half of 2007, we voted on 166 company resolutions involving executive remuneration, supporting 90% of resolutions and voting against 10%. As the statistics below show, this is a large improvement on the same period of 2006. We are pleased with this result.

Executive remuneration*

	Second half 2007	Second half 2006
# company meetings involving executive remuneration	58	69
% company meetings	22%	28%
# executive remuneration resolutions voted on	166	181
% executive remuneration resolutions supported	90%	78%
% executive remuneration resolutions against	10%	22%
% executive remuneration abstained	0%	0%
% executive remuneration no action	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 short term and long term incentive plans.

Executive remuneration resolutions involving incentive payments are the majority of resolutions dealing with executive remuneration. They are also the most contentious and where much of our time is spent analysing details. 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 understands 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 second-half of 2007 included Services Stream, Hastie Group, Murchison Metals, Olympia Resources, Western Areas, SAI Global, Queensland Gas Company and Goodman Fielder.

We voted against resolutions to approve the granting of performance shares/options to the Chief Executive Officer for Queensland Gas Company. The resolutions put forward involved:

- Approval of grants of performance shares and/or options to the Chief Executive Officer.
- The long-term incentive rights equalling 150% of base salary in each of the three years that the proposal covered.

Colonial First State Global Asset Management understands the value of good leaders and executive teams. We also recognise the challenges of attracting and retaining good management. However we still believe that appropriate packages need to be put in place to assist managers to work in the best interests of shareholders. In the case of Queensland Gas Company we voted against the resolution for the following reasons:

- A lack of information in the proposal. We advocate full disclosure.
- The Board of Directors selected the company comparative list used when setting the hurdle rate and this had not been disclosed. This does not allow examination to see if the comparative list is appropriate.
- The Board of Directors would select the performance period for which the incentive vests over, with a minimum of a two year period guaranteed. This again was less than appropriate disclosure and did not allow shareholders to vote armed with full information. The minimum of two years for the performance period was also below the ideal period of three years.
- The company did not provide a valuation of the grant, reducing disclosure and openness about the remuneration plan.

Another company's executive remuneration plan voted against was Goodman Fielder. The resolution voted against was the approval of a Performance Share Plan. The plan included the provision of equity incentives for senior executives. The granting of the Performance Share Plan was dependent on Goodman Fielder achieving its targets for growth in earnings per share and Return on Capital Employed for a three year period. The reasons for voting against the resolution included:

- No clear disclosure on how the shares would be distributed, with no discussion of how shares are distributed between participants.
- The 'earnings per share' and 'return in capital employed' hurdles were not disclosed. There was no way to decide if the hurdles were reasonable and thus hold the company to account if they were granted without reaching the required target.

Colonial First State Global Asset Management believes that it is not just voting 'against' resolutions that get the message across. As a large shareholder, by voting in favour of executive remuneration proposals, this sends a clear signal to the company and the market about practices we will support. It also allows companies that receive a high proportion of 'against' votes to see that appropriate packages that will be supported.

In brief, features that we support in executive remuneration packages include:

- Reasonably challenging performance targets for incentive schemes
- Performance targets that are forward looking
- Performance targets that are not open to accounting manipulation
- Performance targets that are focussed on total shareholder return
- Performance targets that vest only when the company's performance is above the median performance of an appropriate comparative group, and
- Performance targets are for appropriate executives.

Above all, Colonial First State Global Asset Management advocates for full disclosure. If resolutions do not include full disclosure we are prepared to vote against the resolution.

Over the six-month period, we voted for executive remuneration resolutions for Billabong International, Becton Property Group, BHP Billiton, Cochlear, Fosters Group, Harvey Norman, James Hardie Industries, Mirvac Group, Newcrest Mining, Nexus Energy, Qantas Airways, Stockland, Tabcorp, Valad Property Group, WorleyParsons and Westerns Areas.

In particular we recognise that in some circumstances executives need to be retained and remuneration plans need to be increased and changed. This occurred in the case of Flexigroup where we recognised the importance and challenges of keeping top management in a tight labour market. Colonial First State Global Asset Management supported the participation the Long Term Incentive Plan for the Chief Executive Officer.

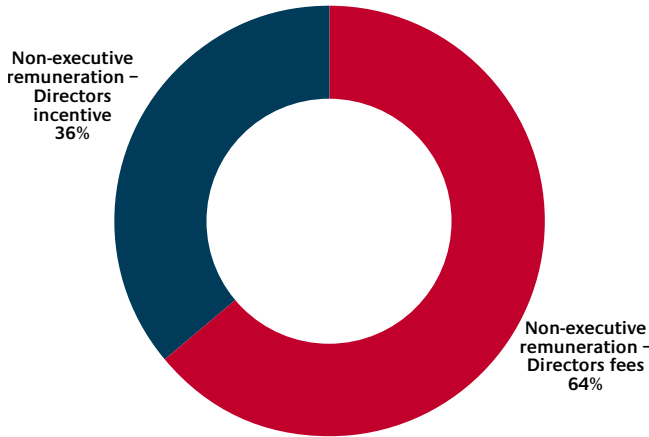
We continue to monitor our voting patterns in relation to executive remuneration packages to see if the standard is improving. We are particularly interested in seeing whether a company where we voted against a resolution previously has reviewed its executive remuneration structure.

The table below shows that voting patterns through time have been mixed. The trend of resolutions supported is on the increase and we hope this continues over time.

Executive remuneration					
	Second half 2007	First half 2007	Second half 2006	First half 2006	First half 2005
# company meetings involving executive remuneration	58	21	69	15	16
# executive remuneration resolutions voted on	166	46	181	38	22
% executive remuneration resolutions supported	90%	85%	78%	95%	77%
% executive remuneration resolutions against	10%	15%	22%	5%	23%
% executive remuneration abstained	0%	0%	0%	0%	0%

Update on non-executive remuneration

In the second half 2007, we voted on 129 resolutions involving non-executive remuneration. These can be broken down into resolutions relating to incentive based director fees and base director fees. The majority (64%) of resolutions were increases to base director fees.



Of the 129 resolutions voted on non-executive remuneration, we voted in favour of 95% of resolutions and voted against 5%. This was an improvement from the second-half of 2006 where Colonial First State Global Asset Management voted in favour of 90% of resolutions and voted against 10%.

Non-executive remuneration		
	Second half 2007	Second half 2006
# company meetings involving non-executive remuneration	95	60
% company meetings	35%	24%
# resolutions involving non-executive remuneration	129	70
% non-executive remuneration resolutions supported	95%	90%
% non-executive remuneration resolutions voted against	5%	10%
% 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:

- The increase is excessive
- There has been poor board performance
- No reason is given for the increase
- There is inappropriate board composition, and
- Remuneration includes options for non-executive directors.

Colonial First State Global Asset Management voted against non-executive director remuneration resolutions put forward by Austal Limited, Avastra, Beach Petroleum, Jubilee Mines and MFS Limited.

We voted against the increase in the maximum aggregate non-executive director fee resolution for Jubilee Mines. The increase

was sought to allow the appointment of additional independent directors if the Board considers it appropriate. While we understand the need to appoint additional directors as companies get larger and more complex, in this case the appointment of a new director is not guaranteed. This, when combined with Jubilee Mines having a larger than average maximum director fee cap we thought it appropriate to vote against the resolution.

Update on remuneration reports

The remuneration report aims to increase the transparency of a company’s remuneration policies, practices and structures. For the past two years, Colonial First State Global Asset Management has been monitoring the progress of the introduction of the remuneration report. Initially a softer approach was taken during the introductory phase. A harder line approach has now been taken with remuneration reports actively opposed based on inappropriate remuneration packages and/or inadequate disclosure. This is demonstrated in the historical statistics below.

In the second half of 2007, Colonial First State Global Asset Management voted on 207 remuneration report resolutions. We supported 168, opposed 37 and abstained from 2 resolutions.

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

Remuneration reports			
	Second half 2007	Second half 2006	Second half 2005
# company meetings involving remuneration reports	207	196	164
% company meetings	78%	79%	70%
# resolutions involving remuneration reports	207	196	164
% remuneration report resolutions supported	81%	92%	57%
% remuneration report resolutions voted against	18%	7%	9%
% remuneration report resolutions abstained	1%	0.5%	34%
% remuneration report no action taken	0%	0.5%	0%

As the above trend shows, this current period of proxy voting has seen a marked increase in the number of remuneration reports that were voted against. Given the harder line approach that has been taken, this was to be expected. We hope this will see an improvement in the quality of remuneration packages and remuneration reports that are put forward in future.

Remuneration reports that were voted against included AGL Energy, Beach Petroleum, Cabcharge Australia, Clarius Group, Computershare, Credit Corp Group, Flexigroup, Goodman Fielder, Hastie Group, Housewares International, Incitec Pivot, Jubilee Mines, Leighton Holdings, Lend Lease, Murchison Metals, Oakton, Orica, Ramsay Health Care, Resource Pacific, Sally Malay Mining, Suncorp-Metway, Telstra, Ten Network and Western Areas.

One example of where we voted 'against' a remuneration report was in the case of Telstra. Reasons why we voted 'against' included:

- The awarding of short-term incentive payments in 2007 were based on relatively low hurdle rates
- Duplication of hurdle rates in both long-term incentive plan and short-term incentive plan – may result in double dipping, and
- The focus on absolute total shareholder return rather than another measure leads to payment possibly due to market conditions rather than individual executive's performance.

In the case of 'against' votes we will always attempt to notify companies of our reasons for voting against the acceptance of the remuneration report. We believe this in conjunction with our 'against' vote is a powerful message and should assist the company on improving its governance standards.

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

Since our last update, Colonial First State Global Asset Management has been active on the United National Principles for Responsible Investment (UNPRI) front. Initiatives include:

- The appointment of Innovest Strategic Value Advisors
- Update on the implementation of UN PRI, and
- The appointment of Amanda McCluskey as Head of Sustainability and Responsible Investing.

Innovest Strategic Value Advisors

As part of its ongoing commitment to further integrate environmental, social and governance risk assessment into the investment processes, Colonial First State Global Asset Management has engaged third party research providers, Innovest Strategic Value Advisors ('Innovest') to supplement our own specialist investment research.

Innovest provides in-depth analysis of environmental, social and governance -related risks on more than 2,200 companies globally, and provides many other services including industry analysis, specialised research and activities screening. Our investment teams are using Innovest's research as input into company valuation models and as tool to make informed investment decisions

Access to high-quality environmental, social and governance research will help Colonial First State Global Asset Management deliver improved risk-adjusted returns to its clients and assist in understanding factors which may place business value at risk. Each investment team across each asset class is currently undertaking the process of formalising environmental, social and governance consideration into investment processes. This process supplements the more informal approach undertaken in the past.

Engagement of environmental, social and governance issues

Colonial First State Global Asset Management is committed to engaging with companies on environmental, social and governance issues. As the discussion earlier in the report illustrates, we are already an active shareholder through our proxy voting and direct discussion with company management and directors. Our size and standing in the industry puts our portfolio managers in a privileged

position to communicate to individual companies our thoughts and desires on environmental, social and governance issues. Through our discussions, our aim is to raise issues for potential improvement as well as applaud those companies that we believe are doing well in these areas.

Three examples of our direct engagement with companies on environmental, social and governance issues and how this has influenced our investment decision are detailed below.

Case One – Norilsk Nickel

Norilsk Nickel mines base and precious metals in Russia. The company is the world's largest producer of nickel and palladium and also mines platinum and copper. As part of regular due diligence on prospective investments, a site visit was made to company operations in Russia. During the visit our portfolio manager witnessed first hand the high level of pollution emitted by the operation and the resulting impact on the nearby township. Given this high level of pollution, mine workers were experiencing a lower than normal life expectancy.

Based on the above information, our portfolio manager decided not to invest in the company given its environmental and social issues and the risk this presented with the stock. Potential impacts on the company's license to operate as a result of the poor environmental and social performance and the potential future liability associated with its actions meant we could not see the long-term upside in the stock. We also believe it demonstrates poor management quality.

It is interesting to note that these environmental issues were present despite Norilsk Nickel having a Social Policy, a Social Mission and Principles in the Area of Sustainable Development and Corporate Social Responsibility. It is always important to view company operations and directly engage with companies to ensure that the highest standards of social, environmental and governance matters are being met.

In this example we have not owned the stock, and the site visit was undertaken several years ago. However, we continue to raise our concerns with senior management and outline that they are a key reason for us not holding the stock. We believe this encourages the company to improve its environmental and social performance. The company has improved over time, but are still below world's best practice on environmental and corporate governance issues.

Case Two – Oakton

Oakton provides professional IT consulting services in Australia. As part of regular research into the company, the analyst noticed a deteriorating trend in staff turnover ratios, sick days and retention rates. As part of our commitment to ensuring our investments adhere to good social policies and operate in the best interests of employees, this trend was raised with company management.

After investigation and questioning it was found that Oakton lacked quality human resource policies and a dedicated Human Resources team, resulting in high staff turnover. After this was raised with the company, Oakton introduced a new human resources team, improved work-life balances and improved communication with employees. This resulted in a dramatic turnaround in staff morale and reduced the staff turnover.

Case Three – Ramsay Health Care

A key area of corporate governance is the composition of the board of directors. In the second-half of 2007 we voted against a proxy resolution for a nominee for the board of Ramsay Health Care.

Our concern was the high number of board members that were affiliated with the majority shareholder of Ramsay Health Care. A majority of independent directors did not exist and there had been a lack of renewal amongst board members in the last decade. Our Corporate Governance Policy states that membership of the audit committee and nomination committee should be held by non-executive directors. In the case of Ramsay Health Care this was not the case given the number of affiliated board members. We classified them as non-independent. It was because of the relatively poor board composition that we voted against the election of the ‘independent’ board members.

With all our ‘against’ votes cast, we attempt to raise contentious issues with company management and their boards. We feel this is one of the best ways we can communicate the high standards of corporate governance we desire. If Colonial First State Global Asset Management has an issue with a company’s corporate governance principles we will raise the issue directly with the company and not just rely on the use of proxy votes to get our message across.

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

Colonial First State Global Asset Management is progressing in its plan to embed environmental, social and governance considerations in a formal and uniform manner into the research, analysis and investment decisions of each asset class. We are assessing and developing our understanding of how the companies we invest in are managing environmental, social and governance issues. We are also encouraging companies to improve their environmental, social and governance performance and disclosure. As part of this, as discussed above, Innovest Strategic Value Advisors have been appointed as an independent research provider to supplement our own specialist investment research.

Other initiatives include:

- the development of formal environment and social guidelines to compliment our existing corporate governance principles
- the development of frameworks for assessing the climate change risk of a particular company
- the development of a human rights framework for assessing a company’s human rights risk

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The appointment of Amanda McCluskey as Head of Sustainability and Responsible Investment

Colonial First State Global Asset Management is pleased to announce the creation of the new role of Head of Sustainability and Responsible Investment. Amanda McCluskey will focus on developing and delivering our UNPRI implementation plan and strategy. She will be instrumental in educating and encouraging all our stakeholders through leadership on environmental, social and governance issues, and the embedding of these principles into our culture and investment practices.

The appointment of Amanda to this role demonstrates our commitment to implementing the UN PRI and improving our assessment of environmental, social and governance risks. Amanda has an enviable reputation; she has worked extensively in the development and implementation of sustainability and governance strategies, frameworks and reporting, and the UN PRI.