

Corporate governance update

August 2008

Introduction

As one of Australia’s largest asset managers, Colonial First State Global Asset Management is a major, active shareholder in many Australian listed companies. Colonial First State Global Asset Management uses its influence to encourage best practice corporate governance in the companies in which it invests.

Corporate governance addresses important company issues such as financial policies, board composition, remuneration, disclosure of information, standards of corporate behaviour, performance and environmental and social issues. We believe that there is a link between companies with good corporate governance and good shareholder returns.

Colonial First State Global Asset Management is an active shareholder on behalf of our investors. We exercise proxy votes at company meetings and have direct discussions or engagement with boards of directors and company management.

As a major shareholder in many listed companies we take our shareholder responsibilities 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. Proxy voting rights are valuable and we believe they are an asset that should be utilised.

This report aims to give an update on our corporate governance practices for the first-half 2008. 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 only covers our Australian investment funds’ equity investments in Australian listed companies.

As a signatory to the UN Principles of Responsible Investment (PRI), this report also provides an update on Colonial First State Global Asset Management’s commitment to environmental and social issues. An update on our direct engagement with companies on environmental, social and governance issues is provided via a series of case studies.

Six-month summary

Colonial First State Global Asset Management has a policy of voting on all resolutions put forward at meetings of companies in which our funds hold shares . Each resolution is carefully considered by the fund’s investment manager and the company equity analyst. Guidance is taken from our Corporate Governance and Engagement Policy.

During the first-half of 2008, Colonial First State Global Asset Management voted at 75 company meetings on 442 resolutions. At these meetings we supported 87% of resolutions, 9% were opposed and on 4% we abstained. The first-half of the year had fewer company meetings than the second-half of the year.

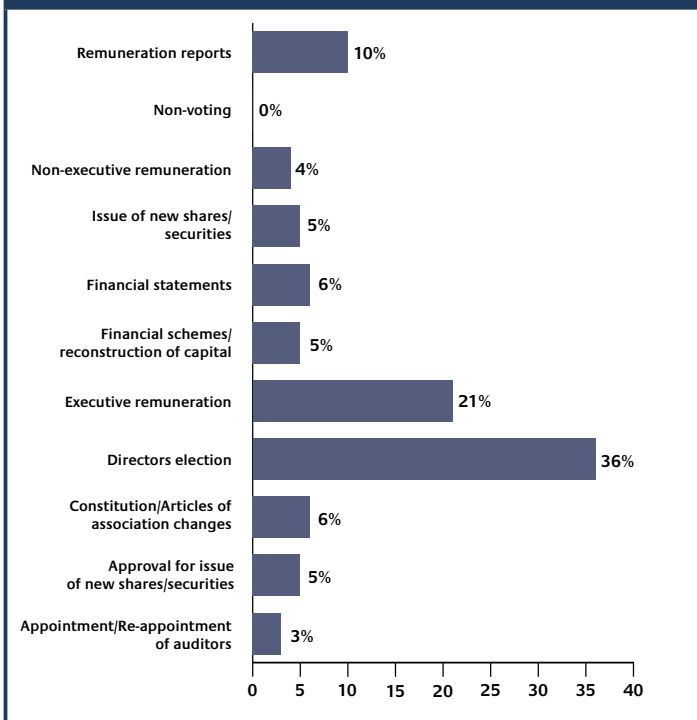
Colonial First State Global Asset Management is restricted from voting for the approval of share issues when we have participated in the placement and these resolutions are recorded as no action. The majority of our abstentions resulted from non-binding resolutions on company’s remuneration reports and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

Aggregate voting history

	First half 2008	First half 2007	First half 2006	First half 2005
# company meetings	75	93	78	68
# resolutions voted on	442	457	394	289
% resolutions supported	87%	96%	87%	79%
% resolutions against	9%	2%	9%	5%
% resolutions abstained	4%	2%	4%	16%

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

Categories of resolutions voted on



Sharemarket volatility, the rising cost of debt funding and risk aversion by investors saw resolutions for corporate activity fall. This was in contrast to 2007 where resolutions for mergers and acquisitions were higher and took up more of our investment managers and analysts' time. The more traditional resolutions of executive remuneration and director elections/re-elections have been the focus of attention this time around. With recent share price falls and profit downgrades among some companies we expect shareholder and media attention to focus on executive remuneration and board composition. We welcome this given our strong focus on these two elements of corporate governance.

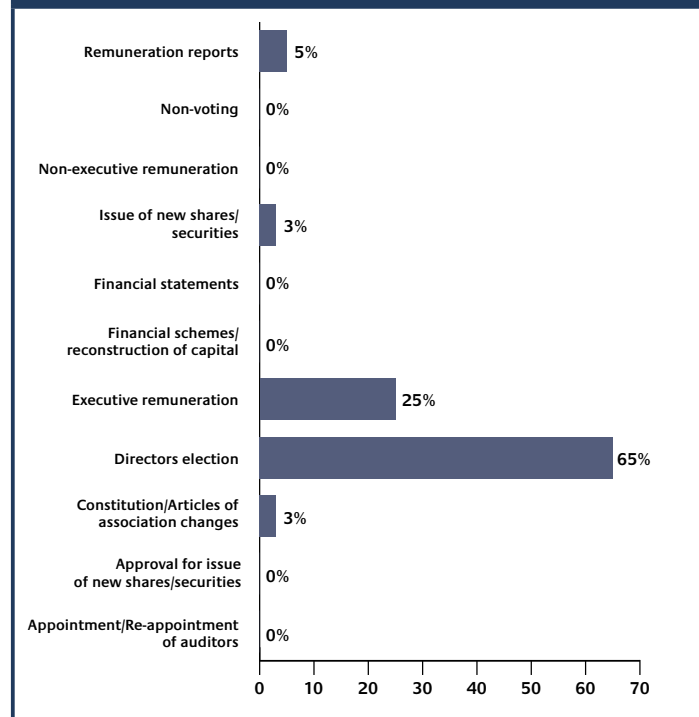
Where are we saying no?

After a pick up in 'against' votes in first-half 2007, Colonial First State Global Asset Management 'against' votes resumed its average level in first-half 2008. However there remain a proportion of resolutions which we do not support. The bulk of these 'against' votes came from the contentious categories of Executive Remuneration and Director Elections. Although Director elections/re-elections makes up only 36% of resolutions, they make up 65% of our 'against' votes. There was a strong pick up in the first-half of 2008 in votes against such resolutions. Reasons behind this trend are examined later in this report.

The other area representing a high proportion of 'against' votes was executive remuneration. Colonial First State Global Asset Management will continue to vote against remuneration reports containing contentious and inappropriate remuneration packages. Given the high proportion of executive remuneration and director election resolutions voted against, greater time and effort will have to be spent in discussion with executives and board members to ensure they understand what we, as shareholders, consider appropriate.

The chart below shows the categories of resolutions where we voted against in the first-half of 2008. It shows the most contentious categories were director elections/re-elections and executive remuneration.

Categories of resolutions voted against



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. We examine the directorship nominee to determine whether the individual is a suitable candidate given their industry experience, skills, background, other responsibilities and the current composition of the board, and we place this nominee in the context of overall board composition.

During the first-half of 2008, Colonial First State Global Asset Management voted on 160 resolutions for director elections/re-elections, we supported 81% of these and voted against 16% of resolutions. The percentage of 'against' votes increased considerably in the recent period. The reasons behind this pick up are discussed below.

Director elections/re-elections

	First half 2008	First half 2007	First half 2006
# company meetings involving director elections/re-elections	54	56	52
% company meetings	72%	60%	67%
# resolutions involving director elections/re-elections	160	148	130
% director elections/re-elections supported	81%	98%	97%
% director elections/re-elections against	16%	0%	3%
% director elections/re-elections abstained	3%	2%	0%

There was a strong pick up in votes against director elections in this half. Colonial First State Global Asset Management has been disappointed to see some board compositions failing to meet best practice.

At Colonial First State Global Asset Management we want to make sure the nominee is the best person for job and that the board is composed according to best practice. It is our belief that boards should be made up of a majority of independent directors. A number of the votes against director elections/re-elections resulted from Colonial First State Global Asset Management disagreeing on the nominee being classified as an independent director.

We noticed companies have been classifying a nominee as 'independent' despite them being affiliated with the company. Colonial First State Global Asset Management takes the view that affiliated directors are not classified as independent directors. This is in keeping with the *ASX Corporate Governance Principles and Recommendations*. This affiliation can take the form of being:

- a substantial shareholder of the company, an officer of or associated directly with a substantial shareholder of the company
- an executive of the company within the past 5 years
- a material contractual relationship with the company other than as a director
- a material supplier or customer of the company, or officer of a material customer or supplier, and
- a material professional adviser or consultant to the company.

An affiliated director is not classified as independent as their needs and interests may differ from that of ordinary shareholders. A majority of independent directors are desired to ensure the best interests of shareholders are considered when a board discharges its responsibilities and duties.

Over the first-half of 2008, Colonial First State Global Asset Management voted against 26 resolutions involving director elections/re-elections. Eight of these resolutions were voted against because of poor board composition with insufficient independent directors. In most cases, the nominee was judged to be an affiliated director rather than an independent director.

Resolutions were voted against for AXA Asia Pacific Holdings, Alumina, Straits Resources, Australian Agricultural Company, Dyno Nobel and Astar United Communications.

In the case of Astar United Communications, we voted against the director re-election resolution given the poor representation of independent directors on the board. Astar is majority owned (around 54%) by Liberty Global. However more than 50% of directors were classified as affiliated given their appointment by the majority shareholder. This is not an ideal board composition, with these affiliated directors unable to effectively monitor company management and the business on behalf of public shareholders.

Colonial First State Global Asset Management also believes that board members of the Audit Committee should be independent. This ensures appropriate financial disclosure and appropriate policies are in place. In the case of Astar the director seeking re-election was also on the Audit committee where we have a firm belief that all members should be independent directors. The director re-election resolution was voted against.

The same reasoning lay behind the vote against the director election resolution for AXA Asia Pacific Holdings.

During the analysis process we examine the other board or executive commitments of the nominee. 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. One way to assess a director's performance is to examine the number of board meetings attended over the year. If attendance is low, it suggests the director has too many commitments and re-election would be voted against.

Colonial First State Global Asset Management views board composition as the paramount concern for corporate governance.

Executive remuneration

Executive Remuneration packages continue to attract much attention in the media and among our investment managers and analysts. Colonial First State Global Asset Management believes that well defined and appropriately structured packages are vital in aligning the long-term interests of management and shareholders.

Colonial First State Global Asset Management believes there should be full disclosure of total remuneration packages and will actively seek this out. We aim to achieve full disclosure of all aspects of the remuneration packages, including full details of the performance targets and which executives are included in the plan. Once full disclosure is achieved, plans can be assessed on their merit.

If full disclosure is not provided, we will not hesitate in voting against executive remuneration packages. 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 of resolutions put forward at company meetings.

During the first-half of 2008, we voted on 91 company resolutions involving executive remuneration, supporting 88% of resolutions, voting against 11% and abstaining on 1%. This is broadly comparable to the prior period and demonstrates Colonial First State Global Asset Management's commitment to ensuring appropriate executive remuneration structures are in place.

The table below shows that voting patterns through time have been mixed. The trend of resolutions supported has held steady over the past year. We hope this standard maintains or improves as companies strive towards best practice corporate governance principles and awareness as the market grows.

Executive remuneration*				
	First half 2008	First half 2007	First half 2006	First half 2005
# company meetings involving executive remuneration	39	21	15	16
# executive remuneration resolutions voted on	86	46	38	22
% executive remuneration resolutions supported	87%	85%	95%	77%
% executive remuneration resolutions against	12%	15%	5%	23%
% executive remuneration abstained	1%	0%	0%	0%

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

Executive remuneration resolutions involving incentive payments make up the majority of resolutions dealing with executive remuneration. They are also the most contentious and where much of our time is spent analysing resolution details.

Executive Remuneration packages we voted against in the first-half of 2008 included MYOB, Straits Resources, Minara Resources, OM Holdings and Arrow Energy.

We voted against a resolution to approve the amendment of the executive share acquisition plan for Straits Resources. 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 Straits Resources we voted against the resolution for the following reasons:

- A lack of information in the proposal. We advocate full disclosure.
- The performance period specified was over one and two years. This is below best practice of three years and our preference.
- The Board of Directors failed to provide a case for the Short Term Incentive Plan.
- The performance goal for the incentive plan was based on only one performance metric. This performance metric was lacking challenging thresholds for awarding of remuneration.

Another company's executive remuneration plan voted against was Minara Resources. The resolution voted against was for the approval of a Performance Share Rights in accordance with the company's Long Term Incentive Scheme. The plan involved a grant of options to the company's Managing Director and Chief Executive Officer. The resolution was voted against given the vesting period was only two years and had an unsatisfactory performance metric as the target. Given the lack of disclosure, especially for the shorter vesting period, the resolution was voted against.

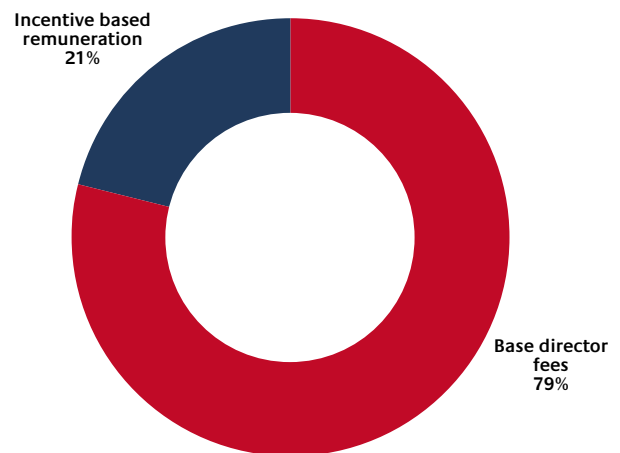
Colonial First State Global Asset Management believes that it is not just voting 'against' resolutions that get the appropriate corporate governance message across. As a large shareholder, by voting in favour of executive remuneration proposals, we send a clear signal to the company and the market about practices we will support. In our March 2008 Corporate Governance report we outlined what characteristics we support in executive remuneration resolutions.

Over the six-month period, we voted for executive remuneration resolutions for National Australia Bank, Lion Nathan, Oxiana, Oil Search, Servcorp, AMP and QBE Insurance.

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. It is particularly disappointing to see repeat offenders. From the first-half 2008 proxy voting season, only one company was a repeat offender, Straits Resources. This is disappointing but we will continue to communicate our concerns and highlight our expectations of the company. We look forward to bringing you an update on our progress in our next update.

Non-executive remuneration

In the first-half 2008, we voted on 24 resolutions involving non-executive remuneration. These can be broken down into resolutions relating to incentive based director fees and base director fees. The majority (79%) of resolutions were increases to base director fees.



Of the 24 resolutions voted on non-executive remuneration, we voted in favour of 96% of resolutions, voted against none and abstained on 4%. This was an improvement from the first-half of 2007 where Colonial First State Global Asset Management voted in favour of 96% of resolutions and voted against 4% and continues on the improvement from first-half 2006.

Non-executive remuneration

	First half 2008	First half 2007	First half 2006
# company meetings	24	21	14
% company meetings	32%	23%	18%
# resolutions involving non-executive remuneration	24	25	22
% non-executive remuneration resolutions supported	96%	96%	91%
% non-executive remuneration resolutions voted against	0%	4%	9%
% non-executive remuneration resolutions abstained	4%	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. Our focus over the past year has been to ensure that board composition has been the best possible. In our view this is the most important corporate governance issue there is. Once board composition meets best practice, remuneration can be more effectively considered.

Remuneration reports

The remuneration report has played a key role in proxy voting resolutions since 2005. The remuneration report sets out the board’s remuneration policy for employees, executives and directors. The proxy resolution is not binding but must be put to vote by shareholders. Since 2005 Colonial First State Global Asset Management has been monitoring the quality of those reports and has taken a harder line on what we expect from each report. We require appropriate remuneration packages, policies and structures and full disclosure on all remuneration policies.

In the first-half of 2008, Colonial First State Global Asset Management voted on 43 remuneration report resolutions. We supported 39 opposed 2 and abstained on 2.

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

Remuneration reports

	First half 2008	First half 2007	First half 2006
# company meetings involving remuneration reports	43	47	39
% company meetings	57%	51%	50%
# resolutions involving remuneration reports	43	48	39
% remuneration report resolutions supported	90%	94%	77%
% remuneration report resolutions voted against	5%	2%	13%
% remuneration report resolutions abstained	5%	4%	10%

As the table above shows, there has been a slight improvement on reports supported since the first-half of 2007. The test will be whether this trend continues into the busier proxy voting season in the second-half of 2008.

Remuneration reports were voted against for MYOB and Straits Resources. The remuneration report for Straits Resources was voted against for the following reasons:

- The remuneration report did not provide adequate disclosure of remuneration policies and structure.
- It was badly composed and written.
- The report failed to outline the maximum amount or percentage of the short term incentive plan that could be received.
- There was a lack of explanation as to the reason behind equity grants. Generally speaking it is important for the company to outline how each remuneration type fits in with the whole remuneration structure. This helps our understanding of how and why the company believes it is rewarding key executives and other employees.

In the case of MYOB both the remuneration report and executive remuneration resolution were voted against. The contentious point was in relation to the exercise price for a grant of options to the Chief Executive Officer. These grants were to be issued at an exercise price below the takeover offer received in February 2008. This takeover offer was rejected. Our belief is that if management believe the company is valued more highly than the takeover offer, the exercise price for the options should be set at a rate higher than this takeover offer. The resolution both for the issue of options and the remuneration report containing the explanation of the package were voted against.

It is pleasing to note that Colonial First State Global Asset Management was not alone in its decision. The executive remuneration resolution was voted against by a majority of shareholders.

In the case of ‘against’ votes we will always attempt to relay our concerns to the company. We believe this, in conjunction with our ‘against’ vote, is a powerful message and should assist the company to improve its governance standards.

Carbon Disclosure Project

Colonial First State Global Asset Management is a signatory to the Carbon Disclosure Project (CDP). The CDP is a global initiative representing over \$57 trillion in funds under management that writes to the 3,000 largest companies globally asking them a series of questions on carbon and climate change issues. This information can then be used by investors when analysing of the companies in which they invest.

To encourage companies to respond to the CDP we wrote to the 74 Australian companies that had not yet responded to this years request for information. This letter was sent from our Chief Investment Officer to the Chairman and Chief Executive Officer of these companies. We hope by doing so, disclosure will grow on this important issue and allow investors to more fully understand the risks and rewards in each company. This issue is growing in importance as we move towards a lower emissions economy.

Corporate Governance Policy updates

During the first-half of 2008 we revised our corporate governance policy, expanding it to include engagement with companies on Environmental, Social and Governance issues. The reviewed policy can be found on the Colonial First State Global Asset Management website. The policy now formalises our belief that social and environment issues are important and need to be considered before we undertake an investment in a company.

The updated policy can be found at: cfsgam.com.au/Policies

Colonial First State Global Asset Management also released a Climate Change Position Statement. We developed this statement because climate change is a near term material environmental, social and governance issue. We believe climate change is of high interest to our stakeholders. The statement can be found at:

cfsgam.com.au/RI

Colonial First State Global Asset Management has also released its inaugural Responsible Investment Report. This report provides a concise version of the inaugural response by Colonial First State Global Asset Management to the United Nations Principles for Responsible Investment (PRI) annual survey for the calendar year of 1 January to 31 December 2007, covering the period of our membership since 1 March 2007. The report details our progress on each of the six Principles of the PRI, and includes case studies of some of the engagement undertaken by our Global Emerging Markets team. The report can be found at:

cfsgam.com.au/RI

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. Over the past 12 months we have raised our commitment in this area. We are an active shareholder through our proxy voting and we are also active in direct discussion with company management and directors. Our size and standing in the industry puts our investment managers in a privileged position to communicate to individual companies on environmental, social and governance issues. Through our discussions, our aim is to raise issues for potential improvement, encourage disclosure on these issues as well as applaud those companies that we believe are doing well in these areas.

Four examples of our direct engagement with companies on environmental, social and governance issues and how these have influenced our investment decisions are detailed below.

Case one – The cost of carbon

Colonial First State Global Asset Management is active in encouraging companies to disclose carbon pollution emissions. With the release of the Garnaut Climate Change Review and the Carbon Pollution Reduction Scheme Green Paper, issues relating to Climate Change and Carbon Pollution are more high profile than ever.

We believe it is in a company's best interest to research and analyse the impact of the introduction of a carbon trading scheme on its business. We also advocate full disclosure on these issues and have participated in the Carbon Disclosure Project (details above).

In recent times, our investment managers and analysts have stepped up direct discussions with company management in our one on one meetings with the companies on matters of carbon emissions and carbon trading. Colonial First State Global Asset Management has been asking companies their views on what price carbon trading permits should be set at in any carbon emission trading scheme. Based on this we conduct our own analysis of the impact on the company of any carbon trading scheme and assess each company's preparedness for the introduction of such a scheme. The cost of carbon is likely to have an impact on a company's profitability and its share price. We have particularly paid attention to companies within the resources and energy sectors and those with high carbon emissions.

Case two – Bluescope Steel and water management

On sustainability, Bluescope is pursuing initiatives to reduce fresh water consumption and greenhouse gas emissions. We discussed with Bluescope CEO, Paul O'Malley, the initiatives being taken at Port Kembla Steel works to use more waste-water and salt water in its operations. The company is also involved in a \$21.5m water recycling project with South East Water, including funding from the Victorian Government. There is a planned 60% reduction in waste-water usage for this facility.

Bluescope has done extensive feasibility studies on a cogeneration plant at its Port Kembla Steelworks and awaits outcomes from the White Paper later in 2008 before deciding on whether to invest \$1bn in such a plant. The company discussed the experiences of its existing cogeneration facility in New Zealand.

Case three – Safety and the resources sector

Australia is currently facing a boom in demand for its natural resources such as iron ore, coal and base metals. This has led to an increase in demand for employees in the resource sector given the large amount of projects taking place, particularly in Western Australia.

In recent discussions with company management in the resources sector, in particular with Woodside Petroleum and BHP Billiton we raised our concerns over workplace safety. With challenges securing labour, and experienced labour in particular, we wanted to ensure that safety standards were being maintained at the highest level.

At the same time we would like to applaud the efforts of Bluescope Steel. During our one on one meeting with Bluescope CEO, Paul O'Malley, we discussed Bluescope's Lost Time Injury Frequency Rate. Bluescope is aggressively pursuing a zero harm injury rate. Injury rates were at a very low level for the reporting period. The key challenge that Bluescope faces is rolling out its safety capabilities across its acquired entities.

It is important to remember that employee safety is just not critical in the resources sector. Colonial First State Global Asset Management has also raised the issue of safety with companies in the Finance industry. We look at data such as employee turnover, absenteeism, and number of accidents and the amount of lost time due to accidents to examine the performance of companies in relation to Occupational, Health and Safety.

Case four – Dyno Nobel

A key area of corporate governance is the composition of the board of directors. In the first-half of 2008 we voted against a proxy resolution for a nominee for the board of Dyno Nobel.

Our concern was the unsatisfactory board composition for the company. At Colonial First State Global Asset Management, we believe that only independent directors should serve on Audit and

Compliance Committees. Our Corporate Governance Policy states that membership of the audit committee should be held by non-executive directors. In the case of Dyno Nobel this was not the case given that an affiliated director was serving on the Audit and Compliance Committees. 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 first raise contentious issues with company management and their boards. This is an effective way to 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 practices, the issue is raised directly with the company management. We do not only rely on the use of proxy votes to highlight our concerns. We note that Dyno Nobel has since been acquired by another company.

Colonial First State Global Asset Management has also actively encouraged a number of other companies with poor board composition to overhaul the composition of the board of directors. This has included encouraging more independent directors and separating the roles of Chief Executive Officer and Chairman of the Board.

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