

Corporate governance update

March 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.

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 the managements of the companies into which we invest, and through their boards of directors.

At Colonial First State Global Asset Management, we take this responsibility seriously. We believe voting rights and the access to company management that comes with share ownership have value and are an important tool of investment management. We act in the best interests of our investors and our corporate governance activities assist us in achieving this.

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

This report aims to give an update on our corporate governance practices for the second-half of 2006. The report looks at how Colonial First State Global Asset Management voted on key issues such as executive remuneration, non-executive remuneration and director elections/re-elections.

The report considers takeovers; growing shareholder activism and Colonial First State Global Asset Management's commitment to the United Nations Principles for Responsible Investment.

Six-month summary

Our aim is to vote on all resolutions put forward by those companies into which we invest¹. Each resolution is carefully considered by our portfolio managers, with guidance taken from our Corporate Governance Principles.

During the six months to 31 December 2006, Colonial First State Global Asset Management voted at 248 company meetings on 1366 resolutions. At these meetings 90% of resolutions were supported, 8% were opposed and 2% were abstained on.

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

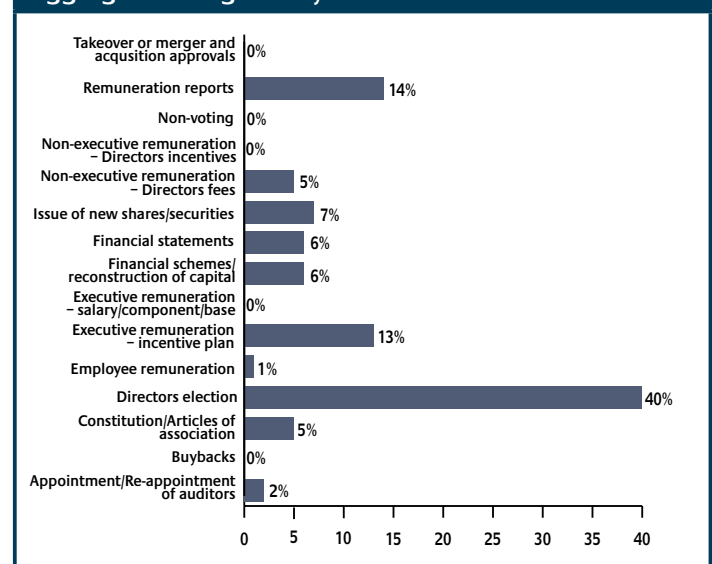
abstentions resulted from non-binding resolutions on company's financial accounts.

Aggregate voting history

| | Second half 2006 | Second half 2005 | Second half 2004 |
|-------------------------|------------------|------------------|------------------|
| # company meetings | 248 | 236 | 278 |
| # resolutions voted on | 1366 | 1286 | 1526 |
| % resolutions supported | 90% | 83% | 86% |
| % resolutions against | 8% | 8% | 9% |
| % resolutions abstained | 2% | 10% | 5% |
| % resolutions no action | 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 were the top issues. Remuneration reports continue to grow in importance during proxy season, representing 14% of all proxy votes.

Aggregate voting history



Update on Executive Remuneration

Colonial First State Global Asset Management continues to monitor executive remuneration packages closely. Executive Remuneration remains a high profile and important corporate governance issue. We believe that well defined and appropriately structured packages are vital in aligning the interests of management and shareholders in the long-term.

¹ Colonial First State Global Asset Management is committed to voting on all resolutions. The Australian Securities and Investment Commission exempts us from voting on our shareholding in Commonwealth Bank of Australia. These votes are counted as "no action" in the statistics.

In the six months to 31 December 2006, we voted on 181 company resolutions involving executive remuneration. Colonial First State Global Asset Management supported 78% of these resolutions and voted against 22%.

| Executive remuneration* | |
|---|-----------------------------------|
| | Six months to 31 December 2006 |
| # company meetings involving executive remuneration | 69 |
| % company meetings | 28% |
| # executive remuneration resolutions voted on | 181 |
| % executive remuneration resolutions supported | 78% |
| % executive remuneration resolutions against | 22% |
| % executive remuneration abstained | 0% |
| % executive remuneration no action | 0% |

* Does not include remuneration reports. CFS GAM reports on these resolutions separately. See below.

Our reasons for not supporting executive remuneration plans can include:

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

Executive remuneration packages we voted against in the second-half of 2006 included David Jones, Kagara Zinc, Publishing & Broadcasting, Toll Holdings, Count Financial and Tabcorp Holdings.

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, whilst providing a benchmark for those companies we provide 'against' votes to.

Appropriate remuneration packages are important because they align management and shareholders interests and should contribute to shareholder value over the longer term. To keep good managers, companies need to remunerate top executives accordingly.

Executive remuneration packages that we supported over the second six-months of the year included BHP Billiton, Cochlear, James Hardie Industries, Macquarie Bank, Mirvac Group and Woolworths.

Features we support in executive remuneration packages include:

- performance targets that are reasonably challenging
- forward looking performance targets
- performance targets that are not open to accounting manipulation
- performance targets that are focussed on shareholder return, and
- performance targets which are only vested when the company's performance is above the median performance of an appropriate group of similar companies.

In our last update we reported on whether the standard of executive remuneration structures had improved. Based on statistics reported in our Corporate Governance Update to August 2006, it appeared that remuneration structures had improved and our message was getting through.

However, in the most recent proxy season, our votes 'against' executive remuneration resolutions reverted back to the previous trend. It appears there is still work to do to ensure companies have appropriate long-term incentive structures in place. The table below shows the outcomes.

| Executive remuneration | | | |
|---|------------------------------|------------------------------|------------------------------|
| | Six months to 31 Dec 2006 | Six months to 30 Jun 2006 | Six months to 20 Jun 2005 |
| # company meetings involving executive remuneration | 69 | 15 | 16 |
| % company meetings | 28% | 19% | 24% |
| # resolutions involving executive remuneration | 181 | 38 | 22 |
| % executive remuneration resolutions supported | 78% | 95% | 77% |
| % executive remuneration resolutions voted against | 22% | 5% | 23% |
| % executive remuneration resolutions abstained | 0% | 0% | 0% |
| % executive remuneration no action taken | 0% | 0% | 0% |

Update on non-executive remuneration

In the six months to 31 December 2006, we voted on 70 resolutions involving non-executive remuneration. These can be broken down into resolutions relating to incentive-based director fees and base director fees, with 64 of the resolutions on base director fees. 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.

We rejected resolutions for Macmahon Holdings, McGuigan Simeon Wines, UTD Group, Commander Communications, Harvey Norman and Macquarie Goodman Group. The most common reason for Colonial First State Global Asset Management rejecting resolutions was that the total increase in the pool of funds was excessive and unwarranted.

Increases were supported for companies such as BHP Billiton, Adelaide Bank, Toll Holdings, Wesfarmers, Transfield, Nufarm and Rinker Group.

| Non-executive remuneration | |
|---|---------------------|
| | Second half 2006 |
| # company meetings involving non-executive remuneration | 60 |
| % company meetings | 24% |
| # resolutions involving non-executive remuneration | 70 |
| % non-executive remuneration resolutions supported | 90% |
| % non-executive remuneration resolutions voted against | 10% |
| % non-executive remuneration resolutions abstained | 0% |

We are active in supporting resolutions to increase director fees when they enable companies to pay market rates and keep key board members. Colonial First State Global Asset Management recognises 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.

Colonial First State Global Asset Management 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, and
- past strong company performance is due to director skill.

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 and where there is poor board composition.

Update on Director elections/re-elections

One of the ways in which Colonial First State Global Asset Management can influence a company's corporate governance structure is through board composition. Colonial First State Global Asset Management examines each directorship nomination to determine whether the individual is a suitable candidate given their skills, background, other responsibilities and composition of the board. Colonial First State Global Asset Management has particular corporate governance ideals as to the number of executive directors versus non-executive directors.

Colonial First State Global Asset Management recognises that strong candidates will have other responsibilities and can bring skills and competencies to the board despite these other commitments.

During the six months to 31 December 2006, Colonial First State Global Asset Management voted on 543 resolutions for director elections/re-elections. Colonial First State Global Asset Management supported 94% of these and voted against 4% of resolutions.

| Director elections/re-elections | |
|--|--------------------------------|
| | Six months to 31 December 2006 |
| # company meetings involving director elections/re-elections | 214 |
| % company meetings | 86% |
| # resolutions involving director elections/re-elections | 543 |
| % director elections/re-elections supported | 94% |
| % director elections/re-elections against | 4% |
| % director elections/re-elections abstained | 1% |
| % director elections/re-elections no action* | 1% |

* Colonial First State Global Asset Management votes on all resolutions. The 'No Action' in this case relates to our holding of Commonwealth Bank of Australia shares. The Australian Securities and Investments Commission exempt us from voting on our shares.

Companies where we voted against the election or re-election of directors included Computershare, Domino's Pizza, Metcash, Tattersall's, Telecom Corporation of New Zealand, Contact Energy and Telstra.

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, or
- Poor performance of the appointment in question.
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Colonial First State Global Asset Management supported the election/re-election of directors for investments such as Insurance Australia Group, CSL, Centro Properties Group, St George Bank and Wesfarmers.

Update on remuneration reports

In our past two Corporate Governance Updates, we highlighted 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.

In the first-half of the 2006 proxy season, Colonial First State Global Asset Management took a harder line on remuneration reports. We have continued this trend in the second-half of 2006 and are pleased to report that companies have been living up to our expectations.

In the second-half of 2006, Colonial First State Global Asset Management voted on 196 remuneration report resolutions. We supported 180, opposed 14, abstained on 2 and took no action on 1*.

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

| Remuneration reports | Six months to 31 Dec 2006 | Six months to 30 Jun 2006 | Six months to 31 Dec 2005 |
|---|---------------------------|---------------------------|---------------------------|
| # company meetings involving remuneration reports | 196 | 39 | 164 |
| % company meetings | 79% | 50% | 70% |
| # resolutions involving remuneration reports | 196 | 39 | 164 |
| % remuneration report resolutions supported | 92% | 77% | 57% |
| % remuneration report resolutions voted against | 7% | 13% | 9% |
| % remuneration report resolutions abstained | 0.5% | 10% | 34% |
| % remuneration report no action taken* | 0.5% | 0% | 0% |

* Colonial First State Global Asset management votes on all resolutions. The 'No Action' in this case relates to our holding of Commonwealth Bank of Australia shares. The Australian Securities and Investments Commission exempt us from voting on our shares.

Colonial First State Global Asset Management supported a great deal more remuneration reports than the previous period, despite the large growth in the number of remuneration reports we have examined. Given the lacklustre quality of reports presented in the 2005 proxy period, it appears companies have improved the quality of reports. Of these resolutions, 92% of remuneration reports were supported this season compared with 77% the prior season and 57% the season before

A positive trend is also seen in the abstention votes, with only 0.5% of reports abstained on, compared with 10% the prior period and 34% the period before.

The percentage of votes 'against' fell from 13% to 7%. Colonial First State Global Asset Management continues to be willing to vote against remuneration reports containing contentious and inappropriate remuneration packages.

Corporate Governance is just not about proxy voting. The growth in shareholder activism.

Corporate governance is more than proxy voting at company meetings. Colonial First State Global Asset Management, as a major shareholder in listed Australian companies, has an open dialogue with company management and board members.

We aim to have conversations to improve corporate governance practices, such as investor communication and public disclosure, as well as proxy resolutions, board appointments, senior executive appointments, capital management and financial reporting. In doing so, we learn more about a company's practices towards environmental and social issues and how they may impact on the long term sustainability of a company.

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 and to improve them.

Shareholder activism has grown in the past twelve months. Shareholders are becoming more vocal and are demanding a higher standard of corporate governance practice.

The growth in takeover activity and leveraged buyouts (LBO) has been a large contributor to increased shareholder activism. As a fund manager, we are concerned with achieving the best return for our investors. Part of this is scrutinising any takeover offers that are made for companies we hold shares in.

We will only approve of the takeover or LBO if we think the offer is fair and in the best interests of our investors. There has been a growing trend for fund managers and other institutional shareholders to withhold selling their shares because they believe it undervalues the company and is not fair. We expect the trend of shareholder activism to continue.

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. This is a voluntary program that encourages best practice in environmental, social and corporate governance issues.

The signing of these principles re-affirms our commitment and active role in corporate governance issues in Australia. We will continue to encourage companies that we invest in, and others, to adopt higher levels of transparency and responsibility.

Environmental, social and governance issues are all currently considered in our investment processes. These principles provide us with a framework to integrate these considerations more formally into our investment process in a consistent manner.

The six underlying principles to which signatories agree when they participate state that:

1. We will incorporate environment, social and governance issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate environment, social and governance issues into our ownership policies and practices.
3. We will seek appropriate disclosure on environment, social and governance issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

We look forward to bringing you updates on our progress in environmental, social and governance issues relating to the companies that we invest in.