P L A T I N U M CAPITAL LIMITED

ABN 51 063 975 431

2001

ANNUAL REPORT TO SHAREHOLDERS

UNCOMMON SENSE: WARREN BUFFETT'S IMMUTABLE UNIVERSE

PLATINUM CAPITAL LIMITED

AN AUDIENCE WITH WARREN BUFFETT AND CHARLIE MUNGER

AT THE BERKSHIRE HATHAWAY AGM, OMAHA, MAY 2001

Long standing shareholders will be aware that each year we try to find articles that may give readers a greater insight into financial markets and the subject of share investing. Over the years we've covered some useful ground; memorable and prescient was last year's piece titled "New Economy: Yes, New Metrics: No" written by Kerschner, Doerflinger and Geraghty of PaineWebber. Back in 1997 we anticipated the "danger of the current super bull market turning into a fully fledged mania ..." and highlighted the difficulties facing fund managers who "…are torn between a fundamental approach and yet being sufficiently agile to recognise the unfolding pattern. History is a valuable guide but, sadly, only provides a crude street map without any indication of scale".

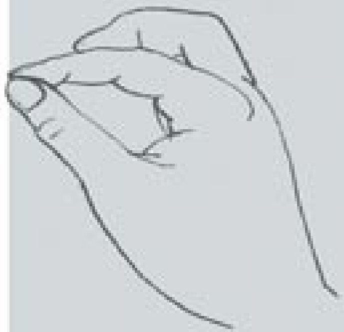
One investor who has shown complete commitment to fundamentals and whose image was beginning to be tarnished as the tech mania took full flight is Warren Buffett. Not only has he eschewed the excesses of the crowd but opportunistically acquired General Re for stock back in December 1999. On account of the latter company's portfolio being principally bonds and cash, the take-over effectively diluted Berkshire Hathaway's exposure to equity markets by some 40%. It should be emphasised that Buffet has no faith in market timing or for that matter macro forecasting, nevertheless he saw that values had become so distorted that it was worth taking advantage of the high price of his stock to reduce his equity exposure.

We are therefore very fortunate this year to be able to reproduce some of the question and answer sessions from the Berkshire Hathaway AGM held in May 2001. Dr Mark Nelson and Mr Ian Darling make the annual pilgrimage to Omaha to "keep the faith" and renew acquaintances. The notes that follow are their own interpretation of Buffett's (and his business partner Charlie Munger's) responses to questions posed at the AGM and Press Conference. As professional investors through their company Caledonia Investments, Mark and Ian have found that applying the Buffet investment principles to local markets has produced strong returns. They were also responsible for the award-winning documentary about the Berkshire Shareholder weekend called "Woodstock for Capitalists" (for more information see www.woodstockforcapitalists.com). I am most grateful to Mark and Ian for allowing us to reproduce these edited notes.

KERR NEILSON MANAGING DIRECTOR

IF PRINCIPLES CAN BECOME DATED,
THEY'RE NOT PRINCIPLES. WARREN BUFFETT

BEING A MANAGER HAS MADE ME A BETTER INVESTOR, AND BEING AN INVESTOR HAS MADE ME A MUCH BETTER MANAGER.



COULD YOU PLEASE EXPLAIN THE FILTER PROCESS YOU GO THROUGH IN MAKING AN INVESTMENT.

BUFFETT Look it is just this simple - there are four things we look for. Can we understand it? Does it have a sustainable long term competitive advantage? Are the management people we admire and trust? And do we think its selling at an attractive price? It is as simple as that. If it gets through all four filters, then I sign my name to the cheque.

WHEN THE HISTORY BOOKS ARE WRITTEN, WOULD YOU RATHER BE REMEMBERED AS AN INVESTOR OR A MANAGER?

BUFFETT There's really a lot of overlap between managing and investing. But being a manager has made me a better investor, and being an investor has made me a much better manager. I have a very limited management role, but if you were to ask me what I really prefer, whilst I am considered to be an investor, it's the managing that I really like. And although I leave my managers alone, it is because of the human interaction with the managers that I would choose managing as a preference over investing. I also like business problems and being able to do something about them.

It is great fun to watch businesses grow and work with people. There's a certain bonding. You live a much fuller life if you work on business problems, tackle things together, and have the interaction with people. That is why we rarely sell a business, because it is the interaction and the relationships which we really like. I think that's far superior to sitting in a room without any windows and simply going through Annual Reports and talking only to brokers. But I have the best of both worlds and it gives us a better business result than we would otherwise have.

An interesting comment from Buffett, given he probably spent the first 10 years of his investment life sitting in a room without any windows going through Annual Reports.

I WAS WONDERING IN WHAT CIRCUMSTANCES YOU WOULD SELL A BUSINESS?

BUFFETT In the early days I would sell because I didn't have too much money and I had a whole lot of ideas (and I was always running out of money, not ideas). That meant I either had to borrow money or sell something, and I didn't like to borrow money. Now we have so much cash coming into the business through the float of the insurance operations, we find it a greater challenge to deploy the capital. If money were still an issue, we would probably sell a business or investment if we found a better alternative, or if we disagreed with the companies accounting practices or management practices, etc.. But we'll never sell just because someone is prepared to pay us more than we paid for it.

Buffett had previously stated that he doesn't entertain the "Gin Rummy" approach to investment, i.e. disposing of your least attractive hand. Buffett has always highlighted the relationships with his managers in the operating businesses and the need to keep investing because of his substantial cash flow. We have observed over the years, however, that he has in fact sold many businesses that have run out of steam, etc. and has continued to upgrade the portfolio. But this has typically been with his share portfolio rather than his portfolio of businesses.

MUNGER There are also opportunity costs to be considered. It is a good yard stick to us to assess the quality of a new investment versus the quality of your existing portfolio. As a yardstick we ask is this new investment better than what we already own, and if not, we are more likely to buy more of an existing position.

BUFFETT You should always use your best holding as a yardstick for buying any new holding (and for that matter your tenth best holding).

HOW DO YOU VIEW THE ECONOMY AT THE MOMENT, AND DO YOU THINK THE SLOW DOWN WILL EFFECT YOUR BUSINESSES?

BUFFETT Look, we are in the game. There will always be good times and bad times and in between times. It really doesn't matter to us which order they come in. When you are in business for the long term, slow downs are inevitable but of no real concern to us. We probably operate in more industrial codes than any other company outside of GE. We see a lot of figures and get a lot of reports. We can see that at the moment much of the economy has hit the wall in a major way, although not autos or housing. The slowdown may continue for 3 months or 3 years, but it really makes little difference to Berkshire.

MUNGER Yes, we really have no idea where the economy is going. We only make predictions in areas we understand and forget the others.

Buffett regularly emphasises the importance of defining your own 'circle of competence' and has previously commented: "What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know. An investor needs to do very few things right as long as he or she avoids the big mistakes".

BUFFETT There are only two kinds of questions you need to ask. Is it noble and is it important? If it's not noble we don't worry about it. If it's noble but unimportant we don't worry about it. We only focus on noble and important investment ideas and forget the rest.

A YEAR AGO YOU SAID YOU COULDN'T UNDERSTAND WHAT CONRAD BLACK SAW IN NEWSPAPERS, GIVEN THE PRICES HE WAS PAYING. HE HAS SUBSEQUENTLY SOLD A LOT OF NEWSPAPERS. CAN YOU TALK ABOUT HOW YOU SEE THE FUTURE OF NEWSPAPERS?

BUFFETT Last year I commented that I couldn't understand the prices that were still being paid for newspapers around the world. Whilst newspapers are still a good business, they are certainly not the great businesses or franchises that they have been in the past. Hollinger was one of those businesses paying up for newspaper assets last year. (They always produce interesting Annual Reports, and this year's report is certainly an "interesting one".)

There is an incredible availability of information for free, and this has to be a threat to someone who currently sells information for money. World Book Encyclopedia has been a terrible experience for us. This is an inevitable threat to a newspaper. It can't be a good development. It is a very difficult business model to now predict. I mean, we can't see a business model where people make money out of selling bricks for nothing. Newspapers had great monopolies in many areas of the media and news business, and these monopolies are eroding. Habits are changing slowly, but it's not a good position to be in when you're providing something that other people are giving away for free. The newspaper business will be far different 20 years from now, but I don't know whether it will be different 5 years from now. It's difficult to predict the pace of change of these things.

MUNGER The threats in advertising are at least as great as the threat in respect to newspapers…

BUFFETT Yeah, well I was going to get to that Charlie! 75% of a newspaper revenue still comes from classified advertising. When GEICO considers running a classified ad in the Washington Post they have to think about its value, given the additional cost per ad per page. Advertising on the internet is much lower and you can go on for page after page for no additional cost, and it stays on for longer.

Habits haven't yet changed to be a major threat, but who knows how long this will last. Until people change their habits, it is a huge asset to the newspaper business.

It starts with the way people look for news. I mean the idea of chopping down trees, running them through $30-$40 million presses, having hundreds of vans and paper boys that deliver the newspapers is a business idea that has problems, versus competing with a little "click" where there is

THERE IS AN INCREDIBLE AVAILABILITY OF INFORMATION FOR FREE, AND THIS HAS TO BE A THREAT TO SOMEONE WHO CURRENTLY SELLS INFORMATION FOR MONEY.

zero additional delivery cost for information off the screen regardless of whether you are selling 10,000 or 1.

MUNGER The newspapers will try to dominate the new forms of electronic advertising and news delivery. Many newspapers are sure about this – I am less sure.

BUFFETT I don't know that I agree with you Charlie. Buffalo.com is very important to the Buffalo News. It's the main on-line source of news in Buffalo (and it's the same with the Washington Post, the LA Times, etc.), but the only problem is you just can't make any money out of it.

MUNGER Life was certainly easier for the media when there were fewer alternatives and fewer delivery systems. Technology is a great creator of value and also a great destroyer of values and that makes life interesting for investors. Tom Murphy (Cap Cities ABC) once said to me "you know I liked it better when there were only three Networks and it was only in black and white".

BUFFETT In those days there were only three highways (the three free-to-air networks) and the highways were where the economic value was. Now with so many highways, the value goes with the talent (i.e. content). The things so many business fail to realise is that each consumer has only two eye balls and that there are only 24 hours a day. It isn't possible to expand the aggregate market and make more money, given there is only the same amount of money slushing around amongst many more highways. Clearly there is a major dilution of returns now on those assets. Someone will end up making money in this game, but formerly when you only had the three highways, the highways made the money. Now the talent makes the money. You need to find out where the scarcity factor is.

YOU HAVE SAID YOUR FAVOURITE HOLDING PERIOD IS FOREVER – CAN YOU EXPLAIN AGAIN WHY YOU DON'T SELL YOUR OPERATING BUSINESSES EVEN IF THEY DON'T TURN OUT AS YOU EXPECT THEM TO?

BUFFETT Not all our investments work out as we expect. We make mistakes, but take the blame ourselves as we are the ones who wrote the cheques. We don't buy turnaround businesses, but when we do buy something that isn't quite what we expected, we certainly try and work them out. I mean, it is a bit like having a child who gets a D at school. It didn't quite work out as you wished but he is still your child. Most managers don't operate like this, and the shareholders of Berkshire need to know and understand this idiosyncrasy of ours. This idiosyncrasy may make us a little more careful in the first place.

But over the years we've had far more pleasant surprises than unpleasant surprises. Running a business with bad economics, where outside factors are killing you, is no fun at all. It is a waste of managements time and resources, but not all things work out as planned.

CAN YOU COMMENT ON THE TREND OF COMPANIES INCREASING THEIR DEBT AND BUYING BACK THEIR STOCK AT EXPENSIVE PRICES?

BUFFETT Well for a start we don't like debt. We have never used debt and don't intend to.

We use other peoples money through the insurance float at much lower rates of interest. The only reason you buy back stock is if it is a value proposition to the business. (i.e. you are paying 100 cents and getting 102 cents in value). The thing that most managers miss is the fact that when they buy back shares, they typically are destroying value, as the shares are vastly over priced. Relatively few repurchases now make sense.

Buffett has previously said that they don't use debt because it only speeds up the process, and he enjoys the process so much, so why speed it up - "In a sense Berkshire Hathaway is a canvas, and I get to paint anything I want on that canvas. It's the process of painting I really enjoy, not selling the painting".

MUNGER The practice of propping the share price through a share buy back is a very dangerous and corrupt way to repurchase shares.

OF ALL WHOLLY OWNED PRIVATE BUSINESS YOU HAVE, WHICH ONE IS CLOSEST TO PERFECTION, AND WHY?

BUFFETT In terms of a truly wonderful business, I would probably say it is See's Candy. Of all our businesses it probably has the highest certainty of earnings, enduring important competitive advantage, high return on equity and huge free cash flow. The only problem we have with See's is it suffers from the fact that it is not expandable in a major way. It's very difficult to make this business international. But GEICO for example, also has a huge competitive advantage, although at lower returns, but the business is more expandable. We feel most comfortable with See's, although we will probably make far more money with GEICO than See's. But if you were to own only one asset and had limited capital it would be hard to go past See's. But there's a lot of our businesses that we feel very comfortable with.

HOW DO YOU KEEP MANAGERS MOTIVATED FINANCIALLY AFTER THEY SELL TO YOU (ESPECIALLY GIVEN YOUR DISLIKE FOR OPTIONS)?

BUFFETT We have many types of compensation and incentive systems. We try to tie our compensation to the results of whatever is under the control of the person. We don't tie the compensation system of the guy selling hot dogs in the stand, to the player with a high batting average standing at the plate, and vice versa. As a result, in 35 years we have never lost a CEO to go to another business. By providing appropriate cash incentives we feel it locks executives in rather than through shares or options. In many instances the options system actually causes the person to leave (i.e. employees cash in and leave when the options are entitled to be exercised). Their lottery tickets have been paid out, unrelated to their performance, and it's time to leave.

Where equity or options are used, the strike price for the manager or successor should start at the intrinsic value, even if this happened to be higher than the share price, and then have escalation clauses which take into account the cost of money. Typically management's behaviour is the opposite to this. It is interesting to see in takeover situations management trying to sell a business at 2 times book, when pressed by a raider, yet are happy to sell to themselves (i.e. issue options) at half book or a huge discount. People do not want to think about options logically because it would mean fewer options.

We in fact have passed on buying several public stocks because the compensation systems within the company have not been aligned with our interests. For example, we have passed when we knew we were getting 100% of the downside, but not necessarily 100% of the upside. We may have liked the business, but we weren't getting the most equitable deal. People in the stock market seem to ignore the fact that in a heavily optional company you are giving away a considerable part of the upside.

MUNGER We're clearly out of step with most of Corporate American compensation systems. We have big incentives for most of our managers, but they are not in stock option form. But this is another of those instances in civilisation where prevention is easier than remedy. The compensation committees in most public companies are usually comprised of sleeping cocker spaniels rather than dobermans.

Aristotle said "rewards worked better when civilisation feels the rewards they see are deserved". Unfortunately if a wide part of civilisation does not feel these massive rewards are deserved, how can that be a good thing – but there is no sign that any fix is in the works.

BUFFETT It is interesting looking at the compensation systems and attitudes of the big mutual funds. Most mutual funds have performed worse than the index funds, yet every year the directors rehire the managers of these funds. Regularly 99.9% of all managers or directors decide to hire the same managers the next year. Clearly they don't have their own money on the line, as poor performance is still rewarded, and these managers get the same fee and typically retain their jobs. Sure they are nice people, they're nice to their dogs and kids, but they don't take care of their shareholders, and wouldn't behave this way if they were dealing with their own money.

NOW THAT THE TECHNOLOGY SECTOR HAS CORRECTED, IS THERE ANY INTEREST OR VALUE THERE FOR YOU?

BUFFETT Just because the share prices have declined significantly, we don't have a better understanding of the enduring competitive position these technology companies have in the industry. We didn't play the tech game primarily because we found it difficult to predict the future cash flows of the businesses in this sector. This is no different today. It is a great spectator sport, but we just don't want to play the game. Technology will always be around, but we just don't know who is going to make the money out of it. Actually, we don't even know who has the advantage now, let alone who is going to be the winner in 10 years time. We don't know who's going to make the money. There's been too much change in too short a time. Even players in the industry aren't confident about predicting the future. We do know though who is going to make the money in bricks in Texas, and candy in California. I know who is going to make the money in blades and razors around the world. But with tech, I don't have a better fix on the answers to the questions I had a year ago. I can use the products, but I don't have the answers.

For many years Buffett has been criticised for specially avoiding technology, but he has also avoided many other industries (e.g. mining), where he doesn't understand the economics and finds it difficult to predict the future cash flows. He has commented in the past "Investment must be rational. If you can't understand it, don't do it. I want to be able to explain my mistakes. This means I only do the things I completely understand".

MUNGER The fact that our investment record over decades is around the top doesn't mean that was exactly what we were trying to do. It just worked out that way. We just like to make money the way we are comfortable with. It would be an insane objective to say you wanted to be the world's best investor, and at the highest and fastest rate. So what if someone else gets richer quicker than the way we get rich – so what.

BUFFETT Yes, if people know and understand what they're in, then there's no problem. If they don't know, then they're not investing, they're buying lottery tickets. But the right attitude towards stock fluctuation is one key attitude, and the others are in learning how to value some businesses, and

THERE WILL ALWAYS BE GOOD TIMES AND BAD TIMES AND IN BETWEEN TIMES. IT REALLY DOESN'T MATTER TO US WHICH ORDER THEY COME IN.

having the right relationship between yourself and the stock price. Once you think the market is telling you if you're right or wrong, you don't have a chance. If you are looking to the market for guidance, and always thinking about relativity and momentum, it is a terrible way to look for it, versus looking at the market for opportunities.

Several meetings ago Buffett said, "I don't know what the market will do tomorrow or next week or next year, but I do know that over a 10-20 year period you will have some very enthusiastic markets and some very depressed markets. The trick is to take advantage of the markets rather than letting them panic you into the wrong action".

MUNGER A lot of people shouldn't be making their own investment decisions. Most are temperamentally unsuited to the investment process, or they don't have the time. It is important to know where you fit in.

BUFFETT Because something has gone up is not a reason to get excited about a stock. If someone has a long term belief in the American economy, they should probably buy an index fund and forget about it.

YOU MENTIONED THAT MOST PENSION FUND MANAGERS HAVE UNREALISTIC EXPECTATIONS OF THE RETURNS OF THE MARKET, AND THAT EXPECTATIONS OF 9-12% ARE TOO HIGH VERSUS YOUR OWN RETURN ESTIMATE FOR THE MARKET OF ABOUT 6%. CAN YOU EXPLAIN THIS IN MORE DETAIL.

BUFFETT I explained it in some detail in last year's Fortune article. However, in simple terms, if corporate profits represent 4-6% of GDP, and GDP is growing at about the same rate, unless the corporate profits share of GDP increases significantly, it is a mathematical absurdity to think that corporate profits and, hence, share market returns can be much greater than the rate of growth in GDP. Hence, my expectation that the returns from the equity market over the next 20 years will be about 6% per annum. And it is wrong to base a pension plan on the best possible result. These assumptions are typically made through the rear view mirror rather than the wind shield, and when we invest, we want a margin of safety in our expectations – which is what the pension plans are not accounting for.

MUNGER Warren isn't saying higher returns are impossible, he's simply saying they shouldn't be expected. Just like there needs to be a margin of safety in building bridges – there also needs to be a margin of safety in designing pension plans.

LAST YEAR THEY CALLED YOU "YESTERDAY'S MAN". CAN YOU TALK ABOUT YOUR PSYCHOLOGICAL MAKE UP. HOW DID YOU AVOID GETTING CAUGHT UP IN THE INTERNET BOOM, AND RESIST INVESTING IN TECHNOLOGY?

BUFFETT Well, it is pretty simple actually. We can't be fired, and we don't need the money and we're not working for someone else who expects us to deliver unrealistic returns in boom times. Equally, I am not working for commission so I don't need to create trades to get commission.

Buffett has previously noted: "We wait for something that seems obvious, but the whole mechanism of Wall Street is saying 'do something, do something'. Activity is the mother's milk of Wall Street."

Over the last few years, we simply didn't understand what the competitive position would look like ten years out for so many of these businesses. The tech thing was a big example, but over the years there have been many examples. It is a bit like the Nebraska farm land boom in the 1970s. Land prices went up three-fold, but when reality set in it broke many of the banks. Here it was happening all around me. We didn't participate in the land boom, but we also didn't feel bad at the time for being out of it. We could have a million people saying "swing you bum" and it wouldn't worry us. We are only interested in the pitches we can swing at. And we don't hold ourselves out to be able to do these other things.

MUNGER We are both temperamentally set up that we don't automatically go along with the crowd. Actually, we like going against it, and typically we suspect anything the crowd likes. You know, Warren has a very strong fiduciary feeling. He would feel terrible if there was a catastrophe or a big reduction in value for all of the people who invested with him forty years ago. It is so important to think like an owner, and to do things that are rational. Temperament is vastly more important in the investment business than IQ. Luckily Warren has both.

With regard to the crowd, Buffett has said "one piece of advice I got at Columbia from Ben Graham that I have never forgotten, 'you are neither right nor wrong because other people agree with you. You are right because your facts are rights and your reasoning is right. That is the only thing that makes you right.'"

YOU SAID AT LAST YEAR'S MEETING THAT IN HINDSIGHT YOU MADE A MISTAKE IN NOT BUYING PHARMACEUTICAL STOCKS IN 1993 WHEN THEY WERE BOMBED OUT. DO YOU THINK IT'S A SIMILAR SITUATION NOW WITH TECHNOLOGY STOCKS?

MUNGER No, it's a very different situation. The future of the pharmaceutical industry, and the companies, was a lot easier to predict than the technology companies. All the pharmaceutical companies did well, and some did very well. Not all of the tech. stocks have done well however. As an industry, the pharmaceuticals have a far better record of high returns on capital, and participation in those returns than the technology sector ever has.

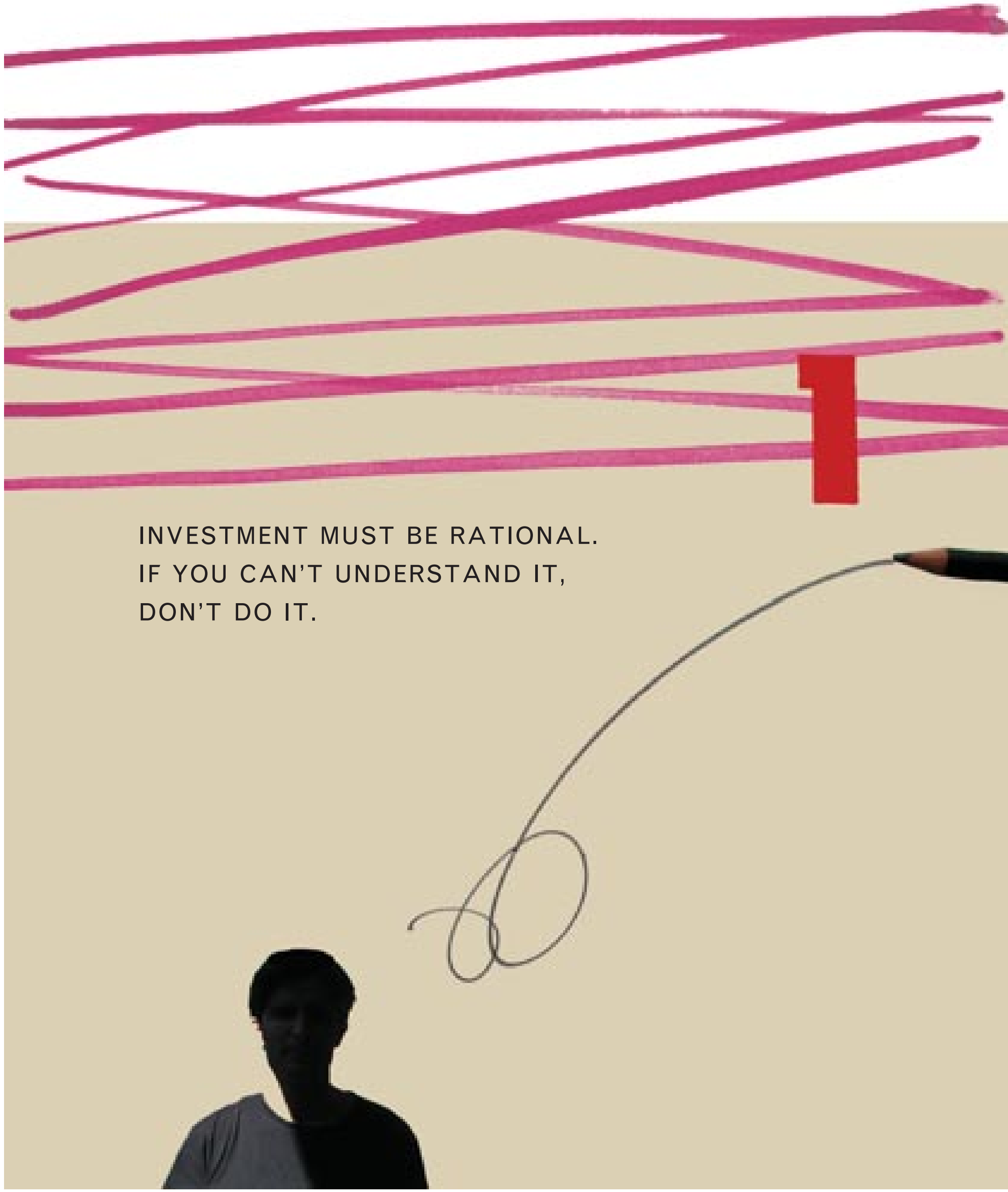
BUFFETT Not going into pharmaceuticals was a mistake, but we don't feel the same way about technology companies.

IN THE INTERESTS OF HUMANITY MR MUNGER, I WAS WONDERING IF YOU COULD TELL US ABOUT YOUR MOST RECENT BUSINESS MISTAKE, AND WHY IT OCCURRED?

MUNGER Our mistakes, both recent and past, tend to be "errors of omission", rather than "errors of commission". Those sort of errors don't show up in your figures, but they certainly represent large opportunity costs. Very few managers ever focus on their "omissions" but they probably should. An awesome amount of money has been "lost" by us in this way. I once bought a parcel of 300 shares of Belleridge Oil many years ago, and a broker rang me and convinced me to buy another 1,500 shares. I didn't have the money available and so needed to sell something. If you follow it through to today, that decision cost me over $200 million. Our biggest errors occur when we understand an industry well, but don't act. We get coy on price even though it's a great business, and that "thumb-sucking" costs us a lot of money.

P/E RATIOS ARE IMPORTANT BUT THEY DON'T TAKE INTO ACCOUNT CASH OR DEBT LEVELS. THE VALUATIONS NEED TO BE ADJUSTED. DO YOU THINK HAVING A LOT OF CASH IS A WASTE?

BUFFETT There are times when we are "awash" with cash, and other times when we don't have enough. We're always looking to deploy our cash into attractive investments or businesses, and that rate of deployment will determine our cash levels. We never look to have a certain percentage of cash. The asset allocation decisions by Wall Street strategists are complete nonsense. We want our cash to be employed, but won't do it just for the sake of it. We don't like debt either, its always way too expensive, and dangerous. In recent years we have had more cash because its been more difficult to employ - but you'll find us unhappy when the cash builds up.



LAST YEAR YOU TALKED ABOUT THE RELATIONSHIP BETWEEN VALUE AND GROWTH. DO YOU STILL BELIEVE THAT VALUE AND GROWTH ARE MERELY THE OPPOSITE SIDES OF THE SAME COIN?

BUFFETT Growth and Value really are indistinguishable. They're both parts of the same equation, and Wall Street always gets it wrong by trying to label stocks as either "Growth" or "Value". Growth can often be a positive for value. You get a business that is good value, because there are growth opportunities, and you add capital to that business, and get better returns. For example Flight Safety is about to spend $200 million on simulators. There's about $70 million of depreciation, so we've got an extra $130 million going into the company, which needs to generate an above-average rate of return. We obviously think this will happen. On the other hand growth opportunities in an industry can often be a curse. The Airline industry for example. Huge worldwide growth over many years, which was great for the public, but not good for any of the companies in the industry. See's Candy is a great business. It has consistent growth, and almost no capital spending needs.

MUNGER Berkshire has a limited staff at Headquarters, so we are especially partial to initially laying out substantial money in companies where we don't need to be smart again. We are looking to buy good businesses at reasonable prices - essentially this is growth investing.

BUFFETT Yeah, I cringe when I hear people say they're moving from being "a value investor" to "a growth investor".

HAS YOUR VIEW OF THE INTERNET, AND INTERNET COMPANIES CHANGED OVER THE PAST YEAR?

BUFFETT Well, I think to most retailers the Internet looks like less of a competitive threat now than it may have done previously. For instance the online jewellers and furniture retailers that have sprung up have now all disappeared. It was too hard. We still see huge opportunities for some of the Berkshire businesses however. See's Candy online sales have grown by over 40% this year, which is a much greater rate of growth than last year. It's very particular though, you can't just take away any business and put it online and expect it to work.

Looking at it now, the Internet has been a case of trying to monetise the hopes and dreams of others. There's been no real wealth created by pure internet companies, most of it went to the promoters and the intermediaries.

YOUR APPROACH TO INVESTMENT SEEMS TO HAVE CHANGED OVER THE PAST 30 YEARS. YOU ORIGINALLY BOUGHT UNDERVALUED STOCKS, THEN YOU MOVED TO BUYING EXCELLENT COMPANIES. WOULD YOU INVEST DIFFERENTLY TODAY IF YOU HAD SMALLER SUMS TO INVEST?

BUFFETT 30 years ago I was dealing with a much smaller amount of money, and so my universe of stocks was much greater. That's the only difference. I was able to buy smaller stocks. As soon as you increase the millions of dollars you have to invest, the curve of expected returns reduces significantly. My returns between 1958 and 1969 were about 26% compound – my best period, however, was between 1950 and 1960 when I averaged about 50% per annum (which was about 37 points above the Dow).

It should be put into context though that between 1950 and 1960 Buffett was investing considerably smaller sums of money, sometimes as little as $10,000 per investment.

Today, you still should look to buy in some way companies selling at the greatest discount to discounted future cash flows. Don't be swayed by other factors. Unfortunately, the biggest money made in Wall Street in recent years has been made not by great performance, but by great promotion. It really is astonishing how willing people are to toss money around in a bull market.

CAN YOU PLEASE COMMENT ON THE ACCOUNTING STANDARDS AS THEY CURRENTLY ARE WITH REGARD TO THE TREATMENT OF STOCK OPTIONS?

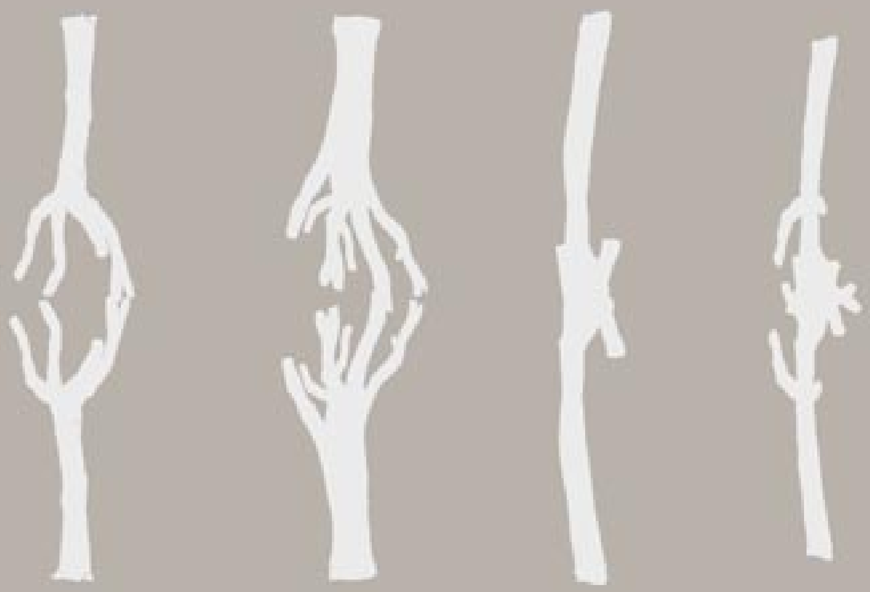
MUNGER We don't like the current accounting for options. It's corrupt. The only way it will change is if 15 or 20 of the largest institutions band together and complain heavily. But many of them get paid in the same way, so it will continue.

At the 1998 meeting Buffett said "Beware of the company with the significant stock option issue each year, as they are probably overstating earnings by about 10% each year. The quality of earnings in a company where there are significant options granted each year, is certainly poorer than in a company where this doesn't happen, and stock is actually repurchased at a reasonable price. I hate to see companies issuing cheap options to management, and then buying back stock. They are effectively selling low and buying high!" — We would also agree with this, and whilst we love our managers interests to be aligned with ours, a free option with no real "hurt money" is not the best alternative.

MY QUESTIONS CONCERN GILLETTE. DO YOU THINK THE GOAL OF GROWING EARNINGS AT GREATER THAN 15% PER ANNUM IS ACHIEVABLE?

BUFFETT I think it's a mistake for any company to predict 15% per annum growth, particularly a large company. Very few large companies can compound at that rate unless GDP increases massively. To try and achieve this sort of growth a lot of companies stretch accounting principles and other things.

GROWTH AND VALUE REALLY ARE INDISTINGUISHABLE.



THEY'RE BOTH PARTS OF THE SAME EQUATION.

MUNGER We see more predictions of higher earnings growth, not less – it's what the analysts want to hear.

BUFFETT I've used the example before, but if you have a company that's got a market valuation of $500 billion, then to provide a 15% return it needs to throw off $75 billion in cash, if it misses this target for a year it needs to throw off $86.25 billion the next year and about $100 billion in year 3. The amounts it needs to grow by are staggering. It's ludicrous. The implications belong in Gulliver's Travels! There's no mathematical calculation you can make that justifies this.

This is a similar comment to last year when Warren questioned how any company, e.g. Cisco, could justify such a market valuation.

THE STATED ROE'S FOR U.S. COMPANIES ARE VERY HIGH. DO YOU THINK THERE IS A LEGITIMATE REASON FOR THIS?

BUFFETT It's true that US returns have been higher historically than other countries, and it's not just accounting shenanigans. The US is a meritocracy, and so the good people get the great positions in corporate America, and this benefits both the companies, and the economy. It wouldn't happen in many other countries. Large repurchases of stock have also helped. You should remember though that there are significant differences between the ROE's of S&P companies before and after "special charges".

I WAS INTRIGUED TO SEE THAT YOU HAD SOLD BOTH YOUR FREDDIE MAC AND FANNIE MAE POSITIONS, STOCKS YOU HAD HELD FOR A VERY LONG TIME. CAN YOU PLEASE TELL US WHAT LED YOU TO SELL THESE STOCKS?

BUFFETT Certain aspects of their operations made us less comfortable with them. The risk profile has changed. We're very sensitive to risk in financial situations. You always spot problems in financial institutions very late.

WHAT DO YOU THINK OF THE PORTER MODEL OF BUSINESS? DO YOU THINK YOU BOTH THINK ALIKE? IN A MORE COMPLEX ECONOMY, IS IT MORE DIFFICULT TO FIND BUSINESSES WITH MOATS?

BUFFETT We just say that we look for a "moat" – he writes a whole book about it! But really it's all much the same. You need to ascertain the sustainability and the width of your moat, and that hasn't changed much over the last 30 years.

MUNGER Many industries, especially those which are rapidly changing, are very difficult to value with regard to their moat. It's getting harder for them. Some of the old moats are getting filled in.

WHAT DO YOU THINK ABOUT THE VOLATILITY OF STOCKS AND MONEY MANAGERS OBSESSED WITH QUARTERLY PERFORMANCE?

BUFFETT I think volatility as a measure of risk is nuts. You should really try to understand the business instead, and the volatility inherent in the business. Risk should be measured in terms of the quality of the business and the risk of permanent capital loss. That makes far more sense to me. It has nothing to do with volatility. If someone starts to talk to you about "beta" – zip up your wallet!

DOES THE CONCEPT OF COST OF CAPITAL MAKE SENSE?

BUFFETT The cost of capital thing is crazy. Capital isn't free, but the theorists have invented ridiculous mathematics (i.e. CAPM) which show that companies that make the most money have the highest cost of capital. It's rubbish!

Buffett stated at the meeting two years ago: "We discount at the long term treasury rate, but this is only appropriate for businesses with highly predictable earnings streams. If we can't determine the future earnings of the business we don't even bother to work out its net present value."

HOW DO YOU TELL WHEN YOU GET A "BIG IDEA"?

BUFFETT Big ideas? I've probably only ever had 15-25 big ideas, say one per year.

MUNGER The key is being able to recognise a good idea when you rarely get it. Opportunity comes to the prepared mind. You really need to be prepared. Things we learned 40 years ago still present themselves today.

WHAT ARE YOUR THOUGHTS ON SELLING STOCK SHORT?

BUFFETT Short-selling is extremely interesting. It's ruined many people. You will see way more stocks that are overvalued in your career versus stocks that are dramatically undervalued. It's a very tough business, you can have unlimited losses, and there are timing considerations.

Buffett then recounted the famous story of well-known investor Robert Wilson shorting stock in Resorts International in the 1970s, and losing a considerable amount of money.

YOU'VE ALLUDED BEFORE TO YOUR SUCCESSION PLANS. CAN YOU PLEASE ELABORATE ON THESE PLANS?

BUFFETT I've got a sealed envelope in my desk with the instructions in it. The first one says "check my pulse again". Two people have been chosen to handle the business operations, and the marketable securities trading, but they may be different in 10-15 years. We really need to maintain the culture we have built up. Our main defence is to have assets that look after themselves.

MARK NELSON & IAN DARLING OMAHA, MAY 2001

P L A T I N U M CAPITAL LIMITED

ABN 51 063 975 431

2001

ANNUAL REPORT TO SHAREHOLDERS

DIRECTORS
Michael Darling
Peter Clarke
Kerr Neilson
Andrew Clifford
Malcolm Halstead

SECRETARY
Malcolm Halstead

INVESTMENT MANAGER
Platinum Asset Management

REGISTERED OFFICE
Level 4, 55 Harrington Street
Sydney NSW 2000
Phone (61 2) 9255 7500 or 1300 726 700

SHARE REGISTRARS
Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Phone (61 2) 8234 5222

AUDITORS AND TAXATION ADVISORS
PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

SOLICITORS
Allens Arthur Robinson
2 Chifley Square
Sydney NSW 2000

STOCK EXCHANGE LISTING
Official list of the Australian Stock Exchange Limited
Ordinary Shares ASX Code

INVESTMENT MANAGER
Platinum Asset Management – Investment team and their responsibilities

Kerr Neilson	Global
Andrew Clifford	North America, IT Services, Software
Jim Simpson	Japan, Korea, Semi Conductors
Charles Evans	Japan, Korea
Doug Huey	S.E. Asia, Semi Conductors, Capital Equipment
Toby Harrop	Europe, Currencies, Healthcare
Alex Barbi	Europe, Telecom Equipment and Operators
John Hempton	Global, Banking, Financials, Insurance
Jacob Mitchell	Global, Manufacturing and Service Industry
Julian McCormack	Global, Brands
Scott Gilchrist	Global, Engineering/Basic Industries
Simon Felton	Global, Engineering
Graham Talbot	Global Equities Dealer
Liz Norman	Shareholder Liaison

Platinum Asset Management does not guarantee the repayment of capital or the investment performance of the Company.

PLATINUM CAPITAL LIMITED – PRE-TAX NAV RETURN VERSUS MSCI INDEX (%)

	1 YEAR	3 YEARS PA	5 YEARS PA	SINCE INCEPTION (SEVEN YEARS) PA	SINCE INCEPTION (CUMULATIVE)
PCL	32.0	26.8	24.5	21.0	280.5
MSCI	-5.9	8.0	18.0	15.7	178.6

INVESTMENT PERFORMANCE

The net asset value of Platinum Capital grew by 20.21% last year. This figure is calculated after allowing for all tax liabilities, both realised and unrealised. On a pre-tax basis the growth was 32.03%.

This return is the second highest achieved in any year of the company's seven-year history and strongly outperformed the benchmark index which was a negative 5.94% for the year.

The table above sets out the performance of Platinum Capital for the last seven years and compares these figures to the Morgan Stanley Capital World Accumulation (Net return) Index in A$ (MSCI), which is widely accepted as the benchmark for performance of international funds.

The annualised return since inception (seven years) for Platinum Capital (21.01%) is now well ahead of that for the MSCI (15.74%) for the same period. Shareholders will be aware that for some years now Platinum Capital has been invested quite differently from the MSCI, particularly in respect of the US markets, where it has been lightly invested and held extensive short positions. This approach initially penalised the company's performance but has been vindicated over the longer term. Indeed, over the seven years since inception, Platinum Capital has increased a total of 280.47% in pre-tax value, over 100 percentage points ahead of the MSCI's increase of 178.62%.

The Manager has maintained a disciplined approach to stock selection both to protect asset values on the downside, and to produce superior performance over the longer term. This approach will be maintained and is likely to continue to result in a portfolio that is weighted differently from the MSCI.

The overall return for the last seven years of 21.01% per annum is at the high end of what investors can reasonably expect from equity investment.

DIVIDENDS

In February this year a dividend of 5 cents per share was paid. Directors are recommending a final dividend of 10 cents per share for a total of 15 cents per share for the year. (A total of 12 cents per share was paid in 2000.) All dividends are fully franked.

It is the Director's intention to at least maintain these dividend rates if market conditions permit.

TAX

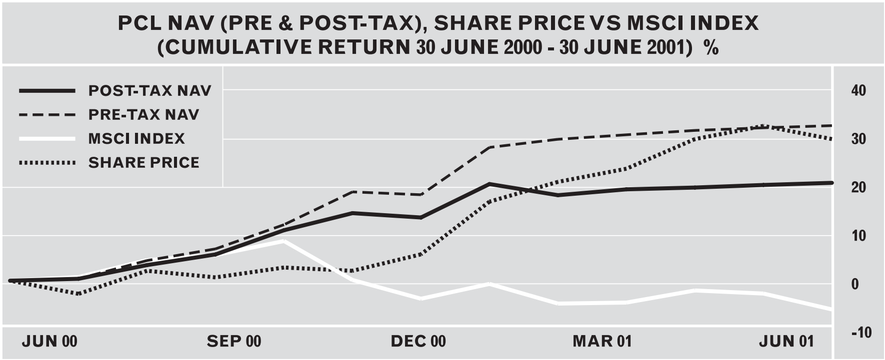
The tax position of listed investment companies and their shareholders has now been clarified. Platinum Capital's position remains largely unaffected and no changes are contemplated.

OUTLOOK FOR 2001/2002

The coming year will not be easy for international investment managers. A revival in the fortunes of many companies and markets will depend on economic recovery, particularly in the United States. This recovery is forecast, but by no means certain.

The manager sets out in detail his view of what next year will bring in his report. Suffice to say the year will present its challenges and a very selective approach will be needed to achieve reasonable returns.

MICHAEL DARLING CHAIRMAN



PERFORMANCE

The prospect of improved economic conditions sometime in the second half of 2001 failed to lift markets in the June quarter. Interestingly, the European exchanges have fared worse than the US and UK, with the composite Euro index having fallen some 8% over the year, versus -2% for the US and +2% for the UK. Japan and Korea were particularly weak, declining by 18% and 28% respectively. The above figures are all expressed in A$ which, on account of its own weakness, tends to understate the inherent weakness abroad. In US$ terms, for example, Wall Street is off 17% over 12 months and Euroland around 23%.

Looking at the global markets, according to official industry classification the weakness has been principally IT and Telecoms – down 46% and 36% respectively in A$ over 12 months, while defensive areas, such as utilities, consumer staples and financials, have risen by 20%, 20% and 17% respectively. Faith in the recovery is revealed in the performance of "materials" – up 1% for the quarter and 16% for the year.

It is partly because of this massive divergence among market segments that our performance has been strong. In addition, the decision to short sell the formerly popular area of technology has paid off. Hence the Company has shown positive returns each quarter to give a total return of 32.0% (pre-tax) for the year. The MSCI World Index was down nearly 6% over this time.

The following Net Asset Value figures are after provision for tax on both realised and unrealised income and gains.

30 APRIL 2001	31 MAY 2001	30 JUNE 2001
172.37 cps	173.15 cps	173.78 cps

DISPOSITION OF ASSETS

REGION	JUNE 2001	MARCH 2001	DECEMBER 2000
Western Europe	36.6%	34.5%	35.0%
North America	20.9%	19.9%	20.2%
Japan	17.8%	19.7%	21.5%
Emerging Markets (incl. Korea)	12.1%	7.7%	6.0%
Australia	1.1%	0.7%	0.0%
Cash	11.5%	17.5%	17.3%

BREAKDOWN BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	JUN 2001	DEC 2000
Cyclicals/Manufacturers	RMC, Akzo, Bayer, Linde, Honeywell, Oce	21%	19%
Retail/Services/Logistics	Hornbach, Raytheon, Rinascente	14%	6%
Technology Hardware	Toshiba, Samsung, AMD, Fujitsu, National Semi	13%	11%
Financials	Lippo, Deutsche Boerse, Nordea, Halifax, HDFC	12%	12%
Consumer Brands	Coke Bottlers, Adidas Salomon, Wella, Lottecon	11%	10%
Telecoms	NTT, Verizon, Korea Telecom	7%	11%
Medical	Draegerwerk, Merck KGaA	6%	6%
Software & Media	Novell, Nippon Broadcasting, Seoul Broadcasting	3%	7%
Gold and Other	Gold Fields, Newmont Mining	1%	

The company's short position is 29% against individual companies, mainly US.

CHANGES TO THE PORTFOLIO

On a geographic basis, the big adjustments over the quarter was the 2% decline in exposure to Japan and the 4% rise in emerging markets. This represented the introduction of some mainland Chinese shares listed in Hong Kong, the purchase of more Indian shares, a reshuffling and addition to holdings in Korea, and the introduction of gold mining companies.

The Chinese companies purchased are engaged principally in infrastructure such as toll roads and Beijing airport. These companies are modestly rated on 11-12x earnings and represent a relatively low risk way to participate in that country's burgeoning domestic economy. Starting from a low base, utilisation rates of this infrastructure are rising in the teens which promises some interesting cash flow growth.

India is even more self-contained than China, having a small external sector and receiving only minute foreign direct investment compared to its more business-friendly, north eastern neighbour. The economy, which had been growing at around 6% per year, has slowed recently because of two successive poor agricultural seasons. Fall-out from the IT boom has also had an effect. However, exports are growing strongly and the prospect of a lower oil price has important consequences for both the balance of payments and internal liquidity. One of our purchases, Housing Development Finance Corporation Bank, has a record of 20% profit growth over time and looks well positioned to continue to outstrip its competitors, the somnolent and clumsy State banks.

Within Korea we engaged in switching from both SK Telecom and Samsung Electronics to their respective holding companies which had become abnormally cheap. We also bought Korea Telecom which was depressed ahead of new supply of stock in the form of an ADR issue.

In Japan, the focus of the portfolio moved to smaller companies, that are both cheap and beginning to see the benefits of restructuring; Seino Transport is an example.

There was a fair amount of movement among our US holdings where we reduced our positions in several strong performing tech stocks such as Foundry Networks, Peoplesoft, National Semiconductor and Verisign while discarding companies that we had incorrectly assessed such as Agilent Technologies and Lucent Technologies. We also sold Diagnostic Products following a trebling in the share price over the last 14 months. We originally purchased this company four years ago. It performed in line with our expectations but at first modest growth was seemingly not enough. Subsequently, it became linked with several sexy themes which together with accelerating earnings growth, provided an explosive mixture. Subsequent to our sale the share price has pulled back one quarter. Positions have begun to be built in Agere Systems, i2 Technologies, Manpower, Honeywell and Health Management. With the exception of Health Management, all of these stocks have been suffering downward market evaluations; their longer term prospects now look sensibly priced.

The action of the gold price has drawn our attention. It looks as though it is bottoming out even though deflation now looks as much a risk as inflation. Treating it principally as a commodity, we observe that demand is about 1,000 tons greater than new supply, which is running at about 2,600 tons per annum. That there is above-ground supply of over 30,000 tons is common knowledge but there are several reasons to believe official sales and leasing will be less of a threat in the future. Combine this with unsettled currencies and turbulent markets and we can readily see the price spike by 10% or 20%. In that case, the companies selected could experience improvements in cash flow of 50% or more. The risk/reward trade-off after a 20 year bear market is tantalising.

Within Europe, we selectively added to existing holdings and participated in the IPO of the Deutsche Stock Exchange. We seldom participate in IPO's believing that the market tends to over-pay in the face of accompanying promotional hype. This issue came without the normal exuberance of the bull market – with the Dax down 27% since its peak in March 2001, the pricing was accordingly more modest. Further, we believe that because this is a relatively new market sector it is not thoroughly covered by analysts and investors do not fully appreciate its growth and operating characteristics.

Our short positions continue to emphasise companies that are likely to disappoint in the context of US consumer retrenchment and deteriorating credit quality. Many are finely managed companies but are over-bought and over-priced in the deflationary and profit elusive environment they face.

CURRENCY

There has been virtually no change in our currency stance. Investment flows continue to favour the US$ as Europeans buy US based companies and, increasingly, US corporate paper. Movement in the Euro/dollar exchange rate is accentuated by money managers trying to second guess the next move by the European Central Bank. We believe the Euro is now at the bottom of its trading range versus the dollar. We continue to regard the Yen as the safety valve for the Japanese economy and expect further weakness. The Korean Won is unlikely to be much stronger than the Yen. Our principal positions are long the Euro and A$, and short the Yen, Won and US$.

COMMENTARY

We have not moved to any great extent from the views expressed in the last few quarterly reports. Breadth on the New York Stock Exchange is encouraging as those shares that are rising significantly outnumber those declining. This process has been evident since November but at the same time the Dow index has shown deteriorating breadth and both the Dow and S&P index have declined. The commonly held view is that the steepening yield curve (following the Fed's six interest rate cuts since January 2001) has historically presaged a recovery in the economy and stock market.

What is troubling is that the rest of the world is slowing more quickly and to a greater extent than was generally expected as little as three months ago. Further, it seems as though the lessons of the tech bubble are not being applied to other areas of the economy. In particular, investment banking, housing and retail space are each being deluged with capital as individual firms continue to expand aggressively without thought to the consequences of their combined actions ie. creating over-supply and thereby removing surplus returns.

The traditional pattern of an economic slowdown being brought on by a tightening of liquidity has somewhat distorted this cycle. The second half of last year was significantly influenced by both the spiking of the oil price and the fallout from the tech bubble. Lay this on top of the deflationary pulses being emitted principally from Asia and so-called globalisation, and one has a pattern quite different from the cycles common since the 1960s. Regular readers will be bored to be reminded of our concerns about debt. Not satisfied that the average US consumer surrenders 14% of his monthly income to service debt payments, Mr Greenspan is trying to induce an even higher level of indebtedness. Worse still, the US corporate sector is similarly loaded with debt with management preferring, for dubious reasons, stock repurchases to debt reduction.

Notwithstanding the recent battering of Nasdaq, 18 years of happiness, engendered by a trending fall in short term interest rates combined with the corporate sector winning a greater share of the economic cake, at the expense of labour's share, has been deeply etched into investors minds. In their eagerness to deploy their assets at better rates than those available in the money markets, investors have moved into defensive sectors or those which will be early beneficiaries of a growth recovery. This has resulted in the unusual phenomena of valuations being driven to the very top of their range even before a recession has been declared or a recovery has been registered.

Such is the general optimism that a trailing earnings yield of 3.7% for the S&P 500 index is being accepted by investors. In all likelihood this will be only 3% once this year's lower earnings are posted. Is the market essentially saying that with inflation tamed, the investment scene is less risky and/or that come the next upturn, the share of the cake won by the corporate sector will expand further? We cannot imagine this, although were it not for the fact that we recognised the craziness of the recent bubble, we might show greater humility and acquiesce to the superior wisdom of the crowd. As it is, we cannot help suspecting that even dropping the cost of money by 2.75% in six months may prove no more than a short lived, though potent, elixir for the market.

Over the coming months one can expect the US economy to receive rapt attention. For all the benefits of lower tax rates and tax rebates, there are the important offsets of high debt, minuscule personal savings, the fall out from an extraordinary capital expenditure boom that has left extreme over-capacity in some parts of the economy with the associated drag on company profitability. Capping this is the high US$ and weak or deteriorating conditions among the other large consuming nations. Corporate profits are high by historic standards and seem unlikely to expand further short term. Much is likely to be said about the profit drought in the months ahead.

In Asia, we see sluggish growth in most regions with perhaps China being an exception, and India to a lesser extent. Japan continues to wallow in gradual restructuring but, ironically, confidence is holding up well on account of the life-time employment structure - which, of course, also acts to retard change. There is hope for good deeds from the new Prime Minister and some support for the view that his election represents a changing of the guard within the LDP.

Korea has made good progress to reduce debt at the national and corporate level. This has come from surging net exports and a more measured approach to capital expenditure by companies. Though capex is still high by world standards, at around 28% of GNP, it is a full 10% points lower than was common in the early nineties. The consequent improvement in the trade balance, puts the economy on a sound footing although it remains highly dependent on world trade.

Europe continues to struggle from the one-size-fits-all management policies of the ECB. However, at the individual country level, there are far fewer distortions and fundamental problems than the weak Euro might suggest. Tax levels are coming down, government finances are sound, corporate capex and balance sheets are largely harmonious and the consumer has savings and carries little debt.

CONCLUSION

Trying to read the ebb and flow of economic news over the next few months will cause more heartache than benefit we suspect. Our attention will be directed at companies with clear growth prospects and we shall attempt to profit from short selling those shares on high valuations that are likely to fail to meet expectations. We remain reluctant to simply buy cyclicals on the basis of some impending broad-based recovery.

KERR NEILSON MANAGING DIRECTOR

The following excerpt from the Emerson Electric press release dated 10 July shows the extent to which form is having precedence over substance. Emerson Electric is a great company, capitalised at US$23 billion and with a share price rise of 10 fold over 20 years. What does this statement say for lesser operators?

"After careful consideration, our management team made a proactive decision to not continue Emerson's record 43 consecutive years of increased earnings per share. We could have pared back restructuring and other investments, or taken other operating actions as we have done in the past, to continue the record. Doing so would not have been in the best interest of the company and our shareholders, who have clearly expressed a preference for faster growth. We have no intention of changing the way we manage operations for consistent performance, and taking this action now should position us to return to double-digit earnings per share growth sooner than would otherwise be possible."

THE NEW WORLD OF ELECTRICITY

The additional burden placed on the environment as China and India industrialise their economies highlights the need for alternative clean energy sources. Throughout the world, numerous chores formerly done by hand have been ceded to machines which are powered by stored energy from the sun in the form of petrol, coal and natural gas. Fortunately, technology is at hand to remedy or alleviate the dangers of environmental degradation. In the short term heavy duty natural gas turbines are the preferred solution while hydropower's deficiencies are currently being starkly exposed in California and Brazil. Wind power and the emerging technologies such as fuel cells, microturbines, solar panels and flywheels will eventually become an integral part of the upgraded electrical generation system. None of these technologies are particularly recent but thanks to significant developments in materials technology and microelectronics, humankind is close to economically harnessing the enormous renewable resources of the globe.

The leading force in industrial gas turbines is presently General Electric thanks to their development work on aircraft jet engines, new materials and cooling processes. An intriguing example of new technology is the use of steam at a temperature of 900 degrees celsius which is forced through minute passages in the turbine blades to keep them "cool". In a machine where an additional 1% efficiency reduces the operating cost by $200,000 per year, every small advance becomes vital. Siemens and Alstom have not been able to achieve the same thermal efficiency and recently Alstom incurred over a billion dollars of abnormal expense due to warranty claims and development work resulting from faults in their turbines.

The beauty of these new machines is not only the high primary efficiency of the turbines but also the recovery of energy from the exhaust gases which makes a combined cycle unit the most energy efficient way to generate electricity – with a 59% thermal conversion ratio. These benefits have not been lost on utilities and merchant power producers and at present GE has a backlog of "F" Class turbine orders which is equivalent to one third of the USA's existing electrical power generation capacity of some 800 gigawatts. GE has responded to this market demand by increasing capacity by 300% over the last two years. Gas demand has soared as the turbines come on line resulting in temporary gas shortages which have been well documented in the press, especially the debacle in California.

Complicating the analysis is the USA's diverse energy supply system - nuclear generation is currently operating at record high utilisation while coal and petroleum powered generator utilisations have recently increased in response to the gas price spike to five times its long term average. These temporary market imbalances produce opportunities for alert investors in areas such as natural gas pipelines, drilling companies and gas exploration and production companies. The majority of the USA's additional gas demand is being supplied from Canada, where Enbridge is an interesting beneficiary resulting from its part ownership of major gas pipelines, together with the longer term possibility of transportation of syncrude.

The Europeans have been the most proactive with renewable energy. The EU has set a target of 22% by the year 2020 while the UK has set a target of 10%. Subsidies will be required to achieve these ambitious targets. In the USA, the Production Tax Credit for wind generated power is set at 1.5 cents per kWh compared with the cost of residential power of 6-8 cents per kWh.

The world leading wind technology companies are located in Denmark and Germany. We well remember visiting Plambeck's wind farm on the gale swept coast of north west Germany – and agreeing with the technicians that building wind mills was much more fun than planting sugar beet. The size of the wind farms is large because the turbines must be spaced twice their diameter apart for reasons of turbulence. One hundred of these turbines would be equivalent to a small power station but without the consistency of output. The construction cost for a modern wind farm is around $1,000 per MW, which is over twice the cost of a combined cycle gas turbine unit. Low operating costs reduce the overall cost differential however, and the sale of carbon trading credits further improves the economics. To give you some sense of the scale of these machines, the top of the range 2.5 megawatt wind turbine has blades with a diameter of over 80 metres and ideally they require persistent high wind speeds over 10 m/s which are commonly found in coastal areas. The economics of wind generation improve greatly as wind speeds increase due to the cubic relationship between wind speed and the available energy. Longer term, it is likely that 5 MW turbines will be developed and these machines will be prime candidates to be put into offshore wind farms – located just over the horizon!

Unfortunately, the valuations of these windmill manufacturers are presently too high for our liking and do not adequately account for the attendant technical risks.

Fuel cells, a technology that set the platinum metal market alight 30 years ago, are now becoming an economic reality. The fundamental component of a PEM (proton exchange membrane) fuel cell consists of two electrodes, the anode and the cathode, separated by a polymer membrane electrolyte. Each of the electrodes is coated on one side with a thin platinum catalyst layer. The electrodes, catalyst and membrane together form the membrane electrode assembly. Hydrogen fuel dissociates into free electrons and protons (positive hydrogen ions) in the presence of the platinum catalyst at the anode. The free electrons are conducted in the form of usable electric current through the external circuit. The protons migrate through the membrane electrolyte to the cathode. At the cathode, oxygen from air, electrons from the external circuit and protons combine to form pure water and heat. Individual fuel cells produce about 0.6 Volt and are combined into a fuel cell stack to provide the amount of electrical power required. The magic of these systems is that they are scalable and thus able to fulfil a large range of power generation requirements at high fuel efficiency. When combined with ancillary systems such as fuel reformers, gas purification filters, sensors and electronics, fuel cells become a technically viable but not yet economically attractive power source.

The ultimate goal of the PEM fuel cell developers is penetration of the automobile engine market with annual sales of $182 billion. DaimlerChrysler, Ford Motor Company and Ballard Power Systems are rapidly developing automobile and bus prototypes to meet the stringent requirements of the USA Environmental Protection Agency and the Californian Air Resources Board. The Californian legislation requires that beginning in 2003, a minimum of 10% of vehicles sold by automobile companies meet low or zero emission vehicles standards.

The most elegant fuel is hydrogen as it can be fed directly to the stack and produces only water, thereby easily satisfying the zero emission criteria. However the obstacles to the use of hydrogen are significant, including refuelling infrastructure and stored hydrogen safety concerns. Methanol or other hydrocarbons could be dispensed through existing infrastructure but require costly and complicated reformers to produce hydrogen from a chemical processing plant half a metre high. Technology is being developed to suit the range of possible fuels including specially refined clean petroleum.

Daimler produced their first fuel cell powered automobile prototype in 1994 which had a 50kW cell weighing 800kg. Recent prototypes with the same power output have a 300kg cell and the aim is to produce a 50kg cell at a price of DM30 per kW. Daimler's subsidiary XCELLSIS has operated fuel cell buses in Vancouver and Chicago for the last three years and received community support for their quiet and clean operation. The six buses carried over 200,000 passengers and travelled over 173,000 kilometres during the trial. Further orders for small fleets of buses will see the next generation of fuel cell vehicles in full commercial service in 2003.

The main "pure play" fuel cell commercialisation companies have negligible sales, large sales growth projections and an impressive array of competition. Some will succeed but many will go the way of their predecessors of the "dot com" bubble. The realities of the business world such as slow adoption of new technology, supply chain management and quality assurance all apply to these new technology companies. We prefer those companies with real businesses and existing proven management who will benefit peripherally from these new industries. Two examples are Linde, which has technology and construction capacity for hydrogen production, and Johnson Mathey with their catalyst technology and patents. Johnson Mathey's core technology is the deposition of platinum catalyst onto the fuel cell membrane. Through innovation, the required amount of platinum per car has been cut from 1kg to 50 grams while the target remains a further fivefold reduction. Underlying growth in platinum consumption has been around 5% per annum and to meet further growth in demand, Anglo American Platinum Corporation, the largest producer of platinum, is planning a 50% increase in production by 2006.

Microturbines can generate enough power for a small community, and could well become an important part of an electricity network which uses software and 24/7 connectivity to efficiently combine centralised large scale power generation and small widely spread generation. These machines have a single moving part - a shaft which spins at 100,000 revolutions per minute. Their air bearings do not need lubricants and their proprietary systems management software and advanced electronics ensure efficient conversion of rotational energy to usable electricity. Capstone has been in product development since 1988 and is currently the most advanced producer, having sold over 1,000 units for uses as diverse as resource recovery, peak shaving, backup power and hybrid electric vehicles. Their 30kW machine is about the size of a refrigerator and produces enough power for a small business. Their current production capacity is 20,000 units per annum which they are able to increase quickly to 40,000 units per annum if required. Similar to wind turbines, it is expected that significant price reductions will be possible as production volumes increase and further technological advances are made. The pure microturbine companies currently have negligible sales, lots of blue sky and extraordinary market capitalisations. Needless to say, there is a large amount of insider selling.

Other exciting technologies which will participate in the future reregulated and environmentally driven electricity generation industry include solar panels, large new technology batteries, and flywheel energy storage systems. Once again, blue sky prevails at the moment, with limited surety of invested capital. We will remain vigilant!

SCOTT GILCHRIST

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with section 715 of the Corporations Act 2001, recorded the following information as at 31 July 2001.

Name	Number of Shares	Class of Share
Questor Financial Services Limited	12,235,018	ordinary

DISTRIBUTION OF SECURITIES

	Class of Equity Security Ordinary
(i) Distribution schedule of holdings	
1 – 1,000	404
1,001 – 5,000	2,325
5,001 – 10,000	1,975
10,001 – 100,000	2,080
100,001 and over	70
Total number of holders	6,854
(ii) Number of holders of less than a marketable parcel	256
(iii) Percentage held by the 20 largest holders	25.82%

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of equity securities as at 31 July 2001 are listed below:

	Number of Shares	%
Questor Financial Services Limited	10,526,367	9.75
Perpetual Trustee Company Ltd	4,805,583	4.45
Questor Financial Services Limited	1,665,904	1.54
National Nominees Limited	1,504,440	1.39
Platinum Asset Management Limited	1,244,938	1.15
Groote Eylandt Aboriginal Trust Inc	1,154,618	1.07
RPG Management Pty Limited	1,136,228	1.05
Cox Bros Coffs Harbour Pty Limited	1,030,487	0.95
Merrill Lynch (Australia) Nominees Pty Limited	794,417	0.74
Nizin Holdings Pty Limited	499,061	0.46
Tower Trust Limited	466,585	0.43
Feboco Investments Pty Limited	392,924	0.36
Nizin Holdings Pty Limited	392,147	0.36
Mr Gregory Mitchell Maughan	383,511	0.36
Dr Russell Kay Hancock	360,671	0.33
Veredi Pty Limited	333,895	0.31
Frank Hadley Pty Ltd	328,750	0.30
Gallium Pty Ltd	326,789	0.30
Mr Matthew Curzon Allen	289,478	0.27
Austair Pilots MBF Nominee Co Pty Ltd	265,000	0.25

VOTING RIGHTS

Ordinary Shares:

On a show of hands, every member present in person or represented by a proxy or representative shall have one vote and on a poll every member who is present in person or represented by a proxy or representative shall have one vote for every share held by them.

ADDITIONAL INFORMATION IN ACCORDANCE WITH THE ASX LISTING REQUIREMENTS FOR THE COMPANY

1. The total number of securities transactions entered into during the reporting period, together with total brokerage paid during the reporting period:

   Number of transactions – 1,608

   Total brokerage paid – $1,001,686
2. Shareholders may review a list of investments acquired or disposed of by the Company in the reporting period at the Registered Office.
3. A listing of the Investment Portfolio may be found in note 11 to the Accounts.
4. A summary of the fees paid or payable to the Investment Manager may be found in note 15 to the Accounts.
5. A summary of the salient provisions of the Investment Management Contract are as follows:

   (a) the Investment Manager will invest the Portfolio in accordance with the investment objectives and restrictions of the Company and subject to the Constitution, the Management Agreement, the ASX Listing Rules, the Corporations Act 2001 and investment restrictions and directions from the Company;

   (b) confer with the Company at regular intervals;

   (c) administer the borrowings of the Company;

   (d) the Investment Manager may appoint the Managing Director of the Company;

   (e) the Investment Manager is required to publish the Net Asset Value of the Company monthly at the ASX and in an Australian national daily newspaper;

   (f) the Agreement will continue for a term of five years, the Investment Manager may retire after giving six months' notice;

   (g) the Agreement may be terminated or renewed by the Members of the Company in General Meeting at the end of each five year term; and

   (h) the Agreement may be immediately terminated by the Company in the event of:

   (i) a breach of a material obligation by the Investment Manager;

   (ii) the Investment Manager going into liquidation or having an administrator or receiver appointed.

In respect of the year ended 30 June 2001 the Directors of Platinum Capital Limited (the Company) submit the following report made out in accordance with a resolution of the Directors.

DIRECTORS

The following persons were Directors of the Company during the whole year and up to the date of this report.

Michael Darling	*Chairman and Non-Executive Director*
Peter Clarke	*Non-Executive Director*
Kerr Neilson	*Managing Director*
Andrew Clifford	*Director*
Malcolm Halstead	*Director and Secretary*

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the investment of funds internationally into securities of companies which are perceived by the Investment Manager to be undervalued.

TRADING RESULTS

The net profit of the Company for the year was $45,924,000 (2000: $33,431,000) after income tax expense of $24,039,000 (2000: $9,253,000).

DIVIDENDS

In respect of the year ended 30 June 2001 the Directors recommend the payment of a 10 cents per share ($10,802,000) fully franked final dividend payable to Shareholders recorded on the Share Register as at 29 October 2001, the Ex-Dividend date.

A fully franked interim dividend of 5 cents per share ($5,346,000) was paid on 23 February 2001.

A fully franked final dividend of 8 cents per share ($8,409,000) for the year ended 30 June 2000 was paid on 14 November 2000.

REVIEW OF OPERATIONS

Operating Results

The operating profit before tax was $69,963,000 (2000: $42,684,000) and $45,924,000 (2000: $33,431,000) after tax.

Taxation

Income tax expense for the year was $24,039,000 (2000: $9,253,000).

CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the Directors are not aware of any matter or circumstance not otherwise dealt with in this report or financial statements that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

LIKELY DEVELOPMENTS

The Company will continue to pursue its investment objectives so as to increase the net asset value of the Company.

ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100, and consequently amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars.

ENVIRONMENTAL REGULATION

The Company has assessed whether it is subject to any significant environmental regulations and determined there are none.

DIRECTORS' EMOLUMENTS

The Executive Directors (WKS Neilson, AM Clifford and RM Halstead) are employees of the Investment Manager, Platinum Asset Management, and are not remunerated by the Company. The Executive Directors review and determine the remuneration of the Non-Executive Directors and may utilise the services of external advisors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors.

The Non-Executive Directors received the following amounts from the Company during the financial year:

	Fee $	Superannuation $	Total $
MG Darling	25,000	2,000	27,000
PW Clarke	20,000	1,600	21,600
	45,000	3,600	48,600

DIRECTORS' INTERESTS IN CONTRACTS

The three Executive Directors are employees of and have a relevant interest in the Investment Manager and accordingly will receive some portion of the Management fee; they do not receive any Directors' remuneration from the Company.

INSURANCE

During the year the Company incurred a premium in respect of a contract for indemnity insurance for the directors and officers of the Company named in paragraph one of this report.

INFORMATION ON DIRECTORS

Michael G Darling BA Law (Oxon), MBA (Harvard)

Chairman (Age 55)

Mr. Darling has extensive experience in international investment markets and has lived and worked in Japan, Europe, North America and Papua New Guinea.

He is Chairman of resource company Gympie Gold Limited and of portfolio investment company Caledonia Investments Limited. Other directorships include Pilatus Capital Limited, Art Exhibitions Australia Limited and The Centre for Independent Studies Limited.

He is a former Director of the Australian Stock Exchange (1986-1987).

Peter W Clarke BSc (Econ), AIIMR

Non-Executive Director (Age 65)

Mr. Clarke brings to the Board over 30 years' experience in the Investment Management business. Until 1987 he held various directorships in the UK and was Managing Director of a stockbroking firm.

Other directorships include Canning Energy Limited and Climax Mining Limited.

Kerr Neilson BCom, ASIP

Managing Director (Age 51)

Relevant interest in 1,506,369 shares in the Company.

Appointed as Managing Director upon incorporation. Mr. Neilson is an experienced investment analyst and fund manager. He is a Director of Platinum Asset Management, the Company's Investment Manager.

Previously to Platinum Asset Management he was an Executive Vice President at Bankers Trust Australia Limited.

Prior to BT he worked in both the UK and South Africa as an investment analyst and fund manager.

Andrew M Clifford BCom(Hons), ASIA

Director (Age 35)

Relevant interest in 1,310,296 shares in the Company.

Appointed a Director of the Company upon incorporation. He is also a Director of Platinum Asset Management, the Company's Investment Manager. Previously to Platinum Asset Management he was a Vice President at Bankers Trust Australia Limited.

Malcolm Halstead ACA

Director and Secretary (Age 43)

Relevant interest in 1,297,225 shares in the Company.

Appointed a Director of the Company upon incorporation. He is also a Director of Platinum Asset Management, the Company's Investment Manager. Previously to Platinum Asset Management he was a Vice President at Bankers Trust Australia Limited. Prior to BT he was with Price Waterhouse, Sydney and Thornton Baker, London.

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2001, and the number of meetings held and attended by each Director.

	Board Meetings	
	Held while a Director	Attended
MG Darling	6	6
PW Clarke	6	5
WK Neilson	6	6
AM Clifford	6	6
RM Halstead	6	5

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Directors.

MG DARLING
Director

WK NEILSON
Director

Sydney
6 August 2001

BOARD MEMBERSHIP

The Board has a policy of having an equal number of Non-Executive and Executive Directors, excluding the Managing Director's role.

The Board may use external advisors to assist in such a process.

The Executive Directors were nominated by the Investment Manager, Platinum Asset Management.

The Managing Director is appointed in accordance with the Investment Management contract with Platinum Asset Management and the Constitution.

Under the Constitution Directors, other than the Managing Director, must retire from office no later than the third Annual General Meeting (AGM) following their last election and they may offer themselves for re-election.

DIRECTORS' ACCESS TO EXTERNAL ADVICE

The Board has a policy of enabling Directors to seek external advice at the Company's expense after first notifying the Board.

The Board will review the estimated costs for reasonableness but will not impede the seeking of advice. The Board will not approve for payment costs that are unreasonable in amount.

DIRECTORS' COMPENSATION

The Executive Directors are not remunerated by the Company. The Executive Directors review and determine the remuneration of the Non-Executive Directors and may utilise the services of external advisors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Current fees amount to $49,000 per annum.

ETHICAL STANDARDS

The Board has instituted compliance with the Institute of Directors' Code of Conduct.

AUDIT COMMITTEE

The Company does not have an audit committee. It is the Directors' opinion that all matters of significance which would otherwise be dealt with by an audit committee are dealt with by the Board and that as a consequence, a separate audit committee is not warranted.

SIGNIFICANT BUSINESS RISKS

The Company is an Investment Company with a stated purpose and investment mandate. The Board has determined to regularly monitor the investment risks, including various derivative instrument risks, inherent in that investment mandate. This is achieved through regular reporting mechanisms from the Investment Manager to the Board.

	Notes	2001 $'000	2000 $'000
REVENUE FROM ORDINARY ACTIVITIES			
Dividends		**2,684**	1,897
Interest		**1,912**	858
Net realised gains/(losses) on sale of equities/derivatives		**75,959**	50,474
Net realised gains/(losses) on currency hedging transactions		**(2,950)**	(8,429)
Net unrealised gains/(losses) on revaluation of monetary items		**(300)**	(1,664)
Reversal of prior periods' provision for permanent diminution in the value of investments		**613**	2,097
Provision for permanent diminution in the value of investments		**(2,446)**	(613)
Net realised gains/(losses) on overseas bank accounts		**2,911**	1,530
TOTAL REVENUE FROM ORDINARY ACTIVITIES		**78,383**	46,150
EXPENSES			
Management fees		**2,986**	2,500
Performance fees		**4,038**	–
Custodian fees		**185**	200
Share Registry		**131**	139
Directors' fees		**49**	48
Auditors' remuneration			
– Auditing and review ($31,000, 2000: $26,250)		**31**	26
– Other		**30**	49
Goods and Services Tax		**212**	–
Withholding tax on foreign dividends		**441**	275
Other expenses		**317**	229
TOTAL EXPENSES		**8,420**	3,466
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**69,963**	42,684
Income tax expense	2	**24,039**	9,253
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX	8	**45,924**	33,431
EARNINGS PER SHARE (CENTS PER SHARE)	7	**43.19**	32.25

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

	Notes	2001 $'000	2000 $'000
INVESTMENTS	1(c), 3	**179,252**	152,937
CURRENT ASSETS			
Cash at bank	9(a)	**122**	134
Receivables	4	**5,508**	367
Future income tax benefit		**170**	81
TOTAL CURRENT ASSETS		**5,800**	582
TOTAL ASSETS		**185,052**	153,519
CURRENT LIABILITIES			
Payables	5	**5,197**	514
Dividend	14	**10,802**	8,409
Current tax		**2,573**	12,651
Deferred tax		**432**	44
TOTAL CURRENT LIABILITIES		**19,004**	21,618
NET ASSETS		**166,048**	131,901
EQUITY			
Contributed Equity	6	**109,890**	105,519
Retained profits	8	**56,158**	26,382
TOTAL EQUITY		**166,048**	131,901

The Statement of Financial Position should be read in conjunction with the accompanying notes.

	Notes	2001 $'000 Inflows (Outflows)	2000 $'000 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends received		**2,677**	1,980
Interest received		**1,946**	825
Cost of purchases of investments and currencies		**(168,558)**	(127,576)
Proceeds from sale of investments and currencies		**200,503**	158,599
Management fees paid		**(2,820)**	(2,440)
Other expenses		**(1,273)**	(979)
Income tax paid		**(33,818)**	(6,258)
NET CASH FROM OPERATING ACTIVITIES	9(b)	**(1,343)**	24,151
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**4,371**	3,652
Dividends paid		**(13,759)**	(10,249)
Refund of stamp duty		**–**	3
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(9,388)**	(6,594)
Net Increase/(decrease) in cash held		**(10,731)**	17,557
Cash held at the beginning of the financial year		**27,365**	10,285
Effects of exchange rate changes on cash		**641**	(477)
CASH HELD AT THE END OF THE FINANCIAL YEAR	9(a)	**17,275**	27,365

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board reporting requirements, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The accounting policies adopted have been consistently applied by the Company, except as otherwise indicated.

As a result of applying the revised Accounting Standard AASB 1018 Statement of Financial Performance, revised AASB 1034 Financial Report Presentation and Disclosures and AASB 1040 Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current reporting period.

(a) BASIS OF ACCOUNTING

The financial statements have been prepared on the basis of historical cost, except where otherwise stated.

(b) FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated into Australian Currency at the rates of exchange ruling on the date of the transaction. All realised exchange gains and losses are taken to account in the period in which they arise.

Foreign currency monetary assets and liabilities existing at balance date are revalued at the rates of exchange ruling at balance date. The resulting unrealised exchange differences are brought to account in determining the Profit or Loss for the year.

(c) INVESTMENTS

(i) Classification

Investments have not been classified in the Statement of Financial Position as current or non-current assets.

In the opinion of the Directors, having regard to the nature of the business conducted by the Company, the period of investment is not known at the time of purchase.

(ii) Valuation

Investments are valued at cost, with the exception of monetary items which are stated at net fair value.

Where, in the opinion of Directors, there has been a permanent diminution in the value of an investment, the carrying amount of such an investment is written down to its net fair value.

(d) DERIVATIVES

(i) Currency Hedges

Realised and unrealised gains or losses are brought to account in determining the Profit or Loss for the year.

Currency positions are disclosed in note 12(b).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(ii) Other Derivatives

All other derivatives are valued at cost. Where, in the opinion of Directors, there has been a permanent diminution in the value of a derivative, the carrying amount of such a derivative is written down to its recoverable amount.

Derivative positions are disclosed in note 12(a).

(e) INCOME RECOGNITION

Interest income is recognised on an accruals basis.

Dividend income is brought to account on the applicable ex-dividend date.

Foreign exchange income is recognised as disclosed in notes 1(b) and (d).

Investment gains and losses are recognised on disposal of an investment, subject to note 1(c).

(f) DIRECTORS' ENTITLEMENTS

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fees rates.

Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(g) INCOME TAX

Income tax has been brought to account using the liability method of tax effect accounting.

(h) EARNINGS PER SHARE

Basic earnings per share is determined by dividing the operating profit after income tax by the weighted number of ordinary shares outstanding during the year.

(i) CASH

Refer to note 9(a).

(j) RECEIVABLES

All receivables are recognised as and when they are due.

Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(k) PAYABLES

All payables and trade creditors are recognised as and when they are incurred.

2. INCOME TAX

	2001 $'000	2000 $'000
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the operating profit/(loss). The difference is reconciled as follows:		
Prima facie income tax on operating profit/(loss) at 34% (2000: 36%)	**23,787**	15,366
Tax effect on permanent differences which:		
Reduce Tax Payable		
– Allowable credits	**(328)**	(230)
Unrecognised future income tax benefit now deductible	**–**	(1,020)
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in the company tax rate to 30% (2000: 34%)	**38**	15
Future income tax benefit not recognised	**550**	208
Under/(over) provision of prior period tax	**(8)**	–
Significant tax items:		
– Income tax refund relating to prior periods	**–**	(1,917)
– Under/(over) provision of prior period tax	**–**	(3,169)
	24,039	9,253
The income tax expense attributable to operating profit/(loss) comprises:		
Current income tax provision	**23,748**	15,376
Deferred income tax provision	**388**	(1,001)
Future income tax benefit	**(89)**	(36)
Under/(over) provision of prior period tax	**(8)**	–
Significant tax items:		
– Income tax refund relating to prior periods	**–**	(1,917)
– Under/(over) provision of prior period tax	**–**	(3,169)
	24,039	9,253

ADJUSTMENT TO DEFERRED INCOME TAX BALANCES

Legislation reducing the company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income year was passed during the year ended 30 June 2000. As a consequence, deferred tax and future income tax benefit balances, which are expected to reverse in the 2001-2002 or a later income year, have been accounted for at 30%.

FUTURE INCOME TAX BENEFIT

Potential future income tax benefits of $733,800 (2000: $208,000) arising from permanent diminution in the value of investments of $2,446,000 (2000: $613,000) have not been brought to account at balance date as the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as virtually certain.

The benefit of the permanent diminution will be obtained if the investments are sold.

SIGNIFICANT TAX ITEMS

The significant tax items arise from the change in the income tax basis from capital to revenue account, for the recognition of gains/(losses) on sale of investments.

3. INVESTMENTS

	2001 $'000 Net Fair Value	**2001 $'000 Cost/Carrying Value**	2000 $'000 Net Fair Value	2000 $'000 Cost/Carrying Value
Listed and non-listed securities	**175,768**	**161,489**	154,200	124,811
Currency hedges	**610**	**610**	895	895
Cash on deposit (note 9(a))	**17,153**	**17,153**	27,231	27,231
Total Investment Portfolio (note 11)	**193,531**	**179,252**	182,326	152,937

4. RECEIVABLES

	2001 $'000	2000 $'000
CURRENT		
Proceeds on sale of investments	**5,000**	194
Accrued dividends	**128**	120
Accrued interest	**2**	36
Prepayments	**15**	17
Goods and Services Tax	**363**	–
	5,508	367

Proceeds on sale of investments are usually received between 2 and 5 days after trade date.

Interest is usually received within three days of becoming due and receivable and dividends are usually received within approximately 30 days of the ex-dividend date.

The net fair value of receivables approximates their carrying value.

	2001 $'000	2000 $'000
Denomination of current receivables in foreign currencies:		
British pound	**–**	60
Indian rupee	**14**	–
Swiss francs	**–**	1
Euro dollars	**92**	194
Indonesian rupee	**2**	5
Japanese yen	**3,929**	29
US dollar	**1,091**	61
	5,128	350

5. PAYABLES

	2001 $'000	2000 $'000
CURRENT		
Payables on purchase of investments	**166**	5
Trade creditors (unsecured)	**4,928**	402
Unclaimed dividends payable to shareholders	**103**	107
	5,197	514

Payables on purchase of investments are usually paid between 2 and 5 days after trade date.

Trade creditors are unsecured and payable between 7 and 30 days after being incurred.

The net fair value of payables approximates their carrying value.

These current payables are non-interest bearing.

	2001 $'000	2000 $'000
Denomination of current payables in foreign currencies:		
US dollar	**68**	–
Japanese yen	**–**	5
Indian rupee	**98**	–
	166	5

6. CONTRIBUTED EQUITY

		2001 Quantity	2001 $'000	2000 Quantity	2000 $'000
Opening balance		**105,117,419**	**105,519**	101,797,679	101,864
Dividend Reinvestment Plan	2-Nov-99	**–**	**–**	2,295,877	2,342
Stamp duty refund – share buyback	2-Dec-99	**–**	**–**	–	3
Dividend Reinvestment Plan	21-Feb-00	**–**	**–**	1,023,863	1,310
Dividend Reinvestment Plan	14-Nov-00	**1,809,018**	**2,587**	–	–
Dividend Reinvestment Plan	23-Feb-01	**1,087,704**	**1,784**	–	–
Closing Balance		**108,014,141**	**109,890**	105,117,419	105,519

Shares are issued under the Dividend Reinvestment Plan at a 5% discount to the market price.

7. EARNINGS PER SHARE

	2001 $'000	2000 $'000
Basic earnings per share – cents per share	**43.19**	32.25
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**106,337,904**	103,668,195

There have been no conversions to, calls of, or subscriptions for ordinary shares other than those issued under the Dividend Reinvestment Plan, or issues of potential ordinary shares during the financial year.

As there are no potential ordinary shares, diluted earnings per share equals basic earnings per share.

8. RETAINED PROFITS

	Note	2001 $'000	2000 $'000
Retained earnings at the beginning of the financial year		**26,382**	5,523
Net profit attributable to members		**45,924**	33,431
Total available for appropriation		**72,306**	38,954
Dividends	14	**16,148**	12,572
RETAINED EARNINGS AT THE END OF THE FINANCIAL YEAR		**56,158**	26,382

9. NOTES TO THE STATEMENT OF CASH FLOWS

(a) RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, cash includes deposits at call, and cash at bank which are readily convertible to cash on hand.

Cash at the end of the financial year, as shown in the Statement of Cash Flows, is reconciled to the related items in the Statement of Financial Position as follows:

	2001 $'000	2000 $'000
Cash at bank*	**122**	134
Cash on deposit** (note 3)	**17,153**	27,231
	17,275	27,365

*** Includes $103,000 (2000: $107,000) held in respect of unclaimed dividends on behalf of Shareholders or the Office of State Revenue.**

**** Includes $15,210,000 (2000: $10,181,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security and are not available for use by the Company until the derivative contracts are closed out. If losses are realised on the close out of derivative contracts the cash balances are set off against those losses.**

If profits are realised on the close out of derivative contracts the money is returned to the Company.

The net fair value of cash and deposits approximates their carrying value.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bear floating interest rates in the range of 2.25% to 4.00% (2000: 2.25% to 3.50%).

International and Australian deposits at call bear floating interest rates in the range of 0.50% to 4.50% (2000: 0.50% to 5.00%).

International deposits and margin calls at derivative exchanges bear floating interest rates in the range of 0.50% to 4.50% (2000: 1.00% to 4.50%).

9. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

(b) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES TO OPERATING PROFIT/(LOSS) AFTER INCOME TAX

	2001 $'000	2000 $'000
Operating profit/(loss) after income tax	**45,924**	33,431
Decrease/(increase) in investment securities and currency hedges	**(36,393)**	(11,492)
(Increase)/decrease in cash due to exchange rate movements	**(641)**	477
Decrease/(increase) in settlements receivable	**(4,806)**	1,200
Decrease/(increase) in dividends receivable	**(8)**	83
Decrease/(increase) in interest receivable	**34**	(33)
Decrease/(increase) in GST receivable	**(363)**	–
Decrease/(increase) in prepayments	**2**	(3)
(Decrease)/increase in accrued expenses	**4,526**	45
(Decrease)/increase in settlements payable	**161**	(2,552)
(Decrease)/increase in income tax payable	**(10,078)**	4,032
(Increase)/decrease in future income tax benefit	**(89)**	(36)
Increase/(decrease) in deferred income tax	**388**	(1,001)
NET CASH FROM OPERATING ACTIVITIES	**(1,343)**	24,151

10. STATEMENT OF NET ASSET VALUE

TAKING INVESTMENTS AT MARKET VALUE* AND PROVIDING FOR REALISED AND UNREALISED TAXES

	2001 $'000	2000 $'000
Net Asset Value per Statement of Financial Position (Historical cost basis)	**166,048**	131,901
Add:		
Revaluation of investments	**14,279**	29,389
Proposed dividends	**10,802**	8,409
Less:		
Deferred income tax on revaluation of investments	**(3,424)**	(10,122)
NET ASSET VALUE	**187,705**	159,577
NET ASSET VALUE – CENTS PER SHARE	**173.78**	151.81

*** All investments, currencies and derivatives are valued at net fair value.**

11. INVESTMENT PORTFOLIO	Quantity	Net Fair Value $'000
JAPAN		
DDI	151	1,378
FDK	37,000	400
Fujitsu	138,000	2,835
Furukawa Electric	86,000	1,342
Keyence – Sold Short	(6,900)	121
Kinki Coca-Cola Bottling	65,000	1,156
Kuraya Sanseido	183,200	2,195
Matsushita Denki Sangyo	110,000	3,367
Mikuni Coca-Cola Bottling	74,000	1,607
Mitsui OSK	586,000	3,363
National House Industrial	52,000	514
Nippon Broadcasting System	35,000	2,415
Nomura Securities	27,000	1,012
Noritake	73,000	785
NTT	287	2,925
Seino Transport	112,000	1,424
Suzuken	17,000	930
Taikisha	40,000	533
TDK	16,000	1,458
Tenma	45,000	1,145
Tokyo Style	37,000	807
Toshiba	348,000	3,586
		35,298
OTHER ASIA		
Hong Kong		
Beijing Capital International Airport – H	2,220,000	1,364
China Everbright	377,000	686
Jiangsu Express Co Ltd – H	1,016,000	466
Shanghai Industrial Holdings	141,000	488
Zhejiang Expressway – H	1,222,000	582
		3,586

11. INVESTMENT PORTFOLIO CONTINUED	Quantity	Net Fair Value $'000
OTHER ASIA CONTINUED		
India		
HDFC Bank	17,500	153
Housing Development Finance	30,154	865
Reliance Industries	70,302	1,080
Videsh Sanchar Nigam – ADR	43,475	1,140
		3,238
Indonesia		
Lippo Bank	9,939,500	77
Lippo E – Net	11,150,000	172
Unilever Indonesia	150,000	453
		702
Korea		
Korea Telecom	38,640	3,023
LG Chemicals	125,850	3,275
LG Household & Health	23,390	1,036
Lotte Confectionery	7,580	2,007
Samsung Electronics	5,335	1,541
Seoul Broadcasting	73,180	3,523
SK Telecom	55,010	1,361
		15,766
TOTAL OTHER ASIA		23,292
AUSTRALIA		
Origin Energy	762,000	2,280
		2,280
EUROPE – EURO		
France		
Bouygues	11,000	728
Legrand	2,700	1,010
		1,738

11. INVESTMENT PORTFOLIO CONTINUED

	Quantity	Net Fair Value $'000
Germany		
Adidas	31,000	3,719
Bayer	41,000	3,150
Deutsche Boerse	76,000	5,254
Draegerwerk – Preferred	60,549	1,164
Escada – Preferred	27,100	1,280
Hornbach Baumarkt	48,600	1,789
Hornbach Holding	25,460	2,174
Linde	51,000	4,242
Merck KgAa	81,900	5,571
Siemens	24,750	2,975
Stinnes	80,000	3,283
Wella	12,000	1,030
Wella – Preferred	8,692	827
		36,458
Greece		
Hellenic Telecom	66,020	1,690
Hellenic Telecom – ADR	26,000	326
		2,016
Italy		
Rinascente	232,525	1,971
Rinascente – Savings	139,000	891
		2,862
Netherlands		
Akzo Nobel	67,000	5,554
DSM	30,000	2,043
Oce	92,860	1,909
		9,506
TOTAL EUROPE – EURO		52,580

11. INVESTMENT PORTFOLIO CONTINUED

	Quantity	Net Fair Value $'000
EUROPE – OTHER		
Denmark		
Novozymes – B	13,000	531
		531
Finland		
UPM-Kymmene	19,000	1,052
		1,052
Sweden		
Nordic Baltic Holdings	364,000	4,062
		4,062
Switzerland		
Givaudan	4,500	2,442
Kuehne & Nagel	515	544
Schindler – Registered	48	105
Schindler – Participating Certificates	920	2,402
Schweizersche Industrie Gesellschaft Holdings – Registered	9,925	1,988
Syngenta	105	11
		7,492
United Kingdom		
Halifax Group	199,000	4,517
RMC	131,500	2,488
		7,005
Kazakstan		
Kazakstan Investment Fund – Partly Paid	77,000	166
		166
TOTAL EUROPE – OTHER		20,308

11. INVESTMENT PORTFOLIO CONTINUED

	Quantity	Net Fair Value $'000
NORTH AMERICA		
Canada		
Ivanhoe Mines Ltd	30,900	60
		60
United States		
Advanced Micro Devices	62,880	3,555
Agere Systems – A	245,200	3,502
Alliant Energy	13,800	787
Ambac Financial	16,350	1,862
Amdocs – Sold Short	(26,500)	163
Applied Materials – Sold Short	(43,600)	156
Bank of America – Sold Short	(28,100)	52
Brocade Communications Systems – Sold Short	(35,700)	(185)
Caliper Technologies Corp	12,000	494
Calpine – Sold Short	(33,200)	957
Conseco – Sold Short	(204,450)	1,387
Duke Energy	11,300	862
EMC	35,850	2,051
Foundry Networks	47,850	1,870
General Electric – Sold Short	(33,850)	127
Goldman Sachs Group – Sold Short	(11,000)	47
Harley Davidson – Sold Short	(64,800)	(78)
Health Mgmt	20,700	852
Home Depot – Sold Short	(20,300)	35
Honeywell International	27,550	1,881
i2 Technologies	67,400	2,611
Intl Business Machines – Sold Short	(12,500)	17
Jones Lang Lasalle	78,600	2,030
Manpower	12,600	737
Mercury General	18,250	1,249

11. INVESTMENT PORTFOLIO CONTINUED

	Quantity	Net Fair Value $'000
NORTH AMERICA CONTINUED		
United States continued		
Metris – Sold Short	(52,500)	(1,088)
Morgan Stanley Dean Witter – Sold Short	(15,200)	(21)
National Semiconductors	65,900	3,754
Newmont Mining	44,250	1,611
Novell	44,200	492
Paychex – Sold Short	(26,500)	(133)
Peoplesoft	16,682	1,607
Providian Financial – Sold Short	(18,600)	(227)
Raytheon – B	45,200	2,348
Tyco International – Sold Short	(55,500)	(116)
US Cellular	10,800	1,218
Verisign	11,800	1,385
Veritas Software – Sold Short	(15,500)	232
Verizon Communications	20,827	2,180
Wal-Mart Stores – Sold Short	(20,300)	2
		40,265
TOTAL NORTH AMERICA		40,325
SOUTH AMERICA		
Peru		
Bayer Peru – Trabajo	77,287	123
Cerveceria Backus & Johnson – Trabajo	463,211	271
Peru Real Estate	834,202	154
		548
TOTAL SOUTH AMERICA		548

11. INVESTMENT PORTFOLIO CONTINUED

	Quantity	Net Fair Value $'000
AFRICA		
Gold Fields – ADR	127,700	1,137
TOTAL AFRICA		1,137
LIQUIDS		
Outstanding settlements		4,962
Foreign exchange contracts		610
Cash at bank and on deposit		17,153
		22,725
TOTAL INVESTMENT PORTFOLIO (NOTE 12 (a) AND (b))		198,493
Accounted for in Payables (payables on purchase of investments)		166
Accounted for in Receivables (proceeds on sale of investments)		(5,000)
Accounted for Receivables (dividends receivable)		(128)
ACCOUNTED FOR IN INVESTMENTS (NOTE 3)		193,531

Exchange traded investments' net fair value is determined from the quoted market price less an estimate for realisation costs.

Unlisted investments', including monetary items', net fair value is determined from alternative pricing sources in 'over the counter' markets or by Directors' valuation, less an estimate for realisation costs.

Certain investments with a carrying value of $73,351,685 (2000: $56,278,238) have a net fair value of $59,796,846 (2000: $46,139,498).

Investment markets are in a continuous state of flux, changing the net fair value of the Company's investments, sometimes to below original cost. The Company is a long term value investor and short term fluctuations in the net fair value of investments are not taken to account, other than if they represent a permanent diminution in value. (Refer to note 1(c)(ii).)

12. RISK MANAGEMENT

It is the Company's investment objective to seek long term capital growth through value investing internationally in businesses and companies. The Investment Manager may also invest in fixed interest investments, although this is not the primary investment objective. The Company's investments are subject to price (which includes currency, interest rate and market risk) credit and liquidity risks.

The Company's primary risks are related to the investment activities undertaken on its behalf by the Investment Manager. The Company has a policy of not borrowing moneys, other than on a short term basis for settlement, trading and like purposes. The Company's investment restrictions prohibit it from taking positions in futures, options, other derivative products or short sales of securities if the aggregate exposure to those products exceeds 50% of the net asset value of the Company.

The Board monitors the level of risk in the Investment Portfolio regularly through formal Directors' meetings with the Investment Manager. The Investment Manager monitors the risks daily and implements risk management strategies consistent with the invested position as it believes necessary. The effective exposure to currencies and markets is continuously monitored by the Investment Manager and the Company.

The international investment activities of the Company expose it to currency risk – the possibility of losing money owing to changes in foreign currency exchange rates – and manages this risk through forward currency hedging contracts and options on forward contracts. Contracts open at balance date are accounted for as foreign currency monetary assets and liabilities – refer note 1(b).

The Company is exposed to credit related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. Where appropriate the Company utilises master netting agreements.

The investment activities of the Company expose it to market risk – the possibility of losing money owing to changes in the market prices of its investments – and manages this risk through derivative hedging contracts, futures, options and swaps. Such transactions are to protect the investment portfolio from either being invested or uninvested. Contracts are primarily for the purpose of portfolio protection and are aimed at decreasing the level of market risk in the portfolio.

The Company is exposed to liquidity risks – the possibility of being unable to obtain the fair market value of an asset or derivative owing to prevailing market conditions – and manages this risk by using derivatives in liquid markets and managing exposure to assets in illiquid markets; although it should be noted that even the most liquid markets can become illiquid in times of severe downward price corrections.

The Company is exposed to interest rate risks – the possibility of losing money owing to changes in interest rates and, more particularly for the Company, the effect that changes in interest rates have on currency and stock market prices – and manages these as noted above for currency and market risks.

12. RISK MANAGEMENT CONTINUED

Refer to note 1 for the Accounting Policies adopted with respect to Derivatives and Currencies.

(a) INVESTMENTS AT NET FAIR VALUE AND DERIVATIVES EXPOSURE

	Physical $'000	Futures and Options $'000	Upside(i) $'000	Futures and Options $'000	Downside(ii) $'000
Japan	35,298	(2,806)	32,492	(2,806)	32,492
Other Asia	23,292	0	23,292	0	23,292
Australia	2,280	0	2,280	0	2,280
Europe – Euro	52,580	0	52,580	0	52,580
Europe – Other	20,308	0	20,308	0	20,308
North America	40,325	(57,990)	(17,665)	(57,990)	(17,665)
South America	548	0	548	0	548
Africa	1,137	0	1,137	0	1,137
	175,768	(60,796)	114,972	(60,796)	114,972
Liquids	22,725	60,796	83,521	60,796	83,521
TOTAL	198,493	0	198,493	0	198,493

The 'physical' column simply shows the location of the Company's investments.

(i) The 'upside' column is an approximation of the Portfolio's exposure to upward movements in markets. This is calculated by making two adjustments to the 'physical' position. The first is to subtract, from the physical position, any short (sold) and add any long (bought) positions in shares or share index futures. For example, if 5% of the Portfolio was invested in Japan but there was a 2% short position in Nikkei futures, then the upside column would show 3%. Conceivably the figure could show a negative exposure which would indicate the Portfolio was net short the Japanese market. The second adjustment is for options held to buy shares (bought calls). A call option with the premium representing 0.5% of the Portfolio to buy shares in Toyota worth, say 3% of the Portfolio would require an additional 2.5% to be added to the Japanese exposure (thus determining underlying exposure).

(ii) The 'downside' column is an approximation of the Portfolio's exposure to downward moves in the market. It is calculated by adjusting the 'physical' position for any short or long positions in shares or share index futures and bought put options. It is not necessary to adjust for call options as only the option premium (already included in 'physical') is at risk, not the underlying holding callable by the option.

12. RISK MANAGEMENT CONTINUED

The Company uses derivatives contracts in liquid markets and generally utilises short dated contracts; those with 90 day maturities. The existing derivative positions are held with high credit rating counterparties with maturity dates range from 77 days to 80 days. Initial margin requirements and daily variation margin requirements on derivatives contracts are met in cash. Derivative contracts have little credit risk as they are traded on recognised exchanges. Over The Counter equity swaps are also entered into by the Company with high credit rating counterparties with maturity dates of no more than 90 days. Initial margin requirements and daily variation margin requirements are met in cash.

The Company uses Exchange Traded and Over The Counter Options where the maximum potential loss is paid up-front by way of a premium. There is little credit risk attached to these instruments as they are traded on recognised exchanges or with high credit rating counterparties.

(b) CURRENCY EXPOSURE AT NET FAIR VALUE

	Physical $'000	Bought $'000	Sold $'000	Net Exposure $'000
Japan	39,393	0	(42,795)	(3,402)
Other Asia	22,086	0	(14,298)	7,788
Australia	3,412	86,203	0	89,615
Europe – Euro	52,331	14,383	0	66,714
Europe – Other	20,140	0	(6,800)	13,340
North America	60,583	30,124	(66,817)	23,890
South America	548	0	0	548
	198,493	130,710	(130,710)	198,493
Liquids	0	0	0	0
TOTAL	198,493	130,710	(130,710)	198,493

The above table categorises the investments in the Portfolio into the currencies that the securities are issued in. For example a security issued by a Japanese company in US$ will be categorised as a US$ exposure.

Forward foreign currency contracts and options on forward currency contracts are adjusted against the 'physical' column to arrive at a net exposure to each currency grouping.

The Company generally utilises short dated (90 day maturities) currency agreements with high credit rated counterparties.

The existing currency hedging positions' maturity dates range from 16 days to 76 days.

12. RISK MANAGEMENT CONTINUED

(c) INTEREST RATE EXPOSURE

The Company had no fixed interest investments or derivatives thereon at balance date.

Refer to note 9(a) for information on short term interest rates.

13. FRANKING ACCOUNT

	2001 $'000	2000 $'000
Opening Balance – 1 July (converted at 34%)	**31,158**	22,067
On dividends received: franked at 36%	**–**	41
On tax paid and payable: 1999/2000	**–**	27,335
2000/2001	**46,100**	–
Prior year tax provision – franking adjustment	**(15)**	(5,634)
Prior years' tax paid adjustment – tax refund	**–**	(3,408)
Interim dividend paid – franked at 34%	**(5,346)**	(4,163)
Proposed dividends – franked at 34%	**(10,802)**	(8,409)
	61,095	27,829
Amount of retained earnings that could be distributed as dividends and be franked out of existing credits or out of franking credits arising from the payment of income tax in the period subsequent to 30 June 2001, after deducting franking credits applicable to any proposed dividends:		
Accumulated profits	**56,158**	26,382
	56,158	26,382

Upon conversion of the franking account balance on 1 July 2001, franking credits available for subsequent financial years, based on a underlying tax rate of 30%, formerly 34%, will increase to $75,619,000.

14. DIVIDENDS (FULLY FRANKED)

	2001 cps	2001 $'000	2000 cps	2000 $'000
Paid – Interim fully franked at 34% (2000: 36%)	**5.00**	**5,346**	4.00	4,163
Proposed – Final fully franked at 30% (2000: 34%)	**10.00**	**10,802**	8.00	8,409
	15.00	**16,148**	12.00	12,572

15. INVESTMENT MANAGER

The Investment Manager is Platinum Asset Management. It receives a monthly management fee for investment services provided in accordance with the Investment Management Agreement. This agreement provides for a management fee payable monthly and calculated at 1.5% per annum of the Portfolio Value.

Additionally a Bonus (Performance) fee is payable at 10% of the amount by which the Portfolio's annual performance exceeds the return achieved by the MSCI plus 5% (MSCI is the Morgan Stanley Capital International World Accumulation Net Return Index in A$).

Where the Portfolio's annual performance is less than the MSCI the amount of the underperformance is aggregated and carried forward and deducted from the annual performance in the subsequent year before calculating any Bonus fee for that year. The aggregate of underperformance is carried forward until a Bonus fee becomes payable.

The pre-tax performance of the Portfolio for the year to June 2001 was 32.36% against the MSCI's negative 5.94%. This represents an outperformance of 38.30% against the MSCI and 26.22% after deducting prior periods' cumulative net underperformance of 12.08% and 21.22% after the 5% MSCI hurdle. Accordingly a performance fee is payable.

The Investment Manager is to be paid a lump sum termination fee of 1.5% calculated on the value of the Portfolio on the first day of the month in which termination is effective. The fee is not payable if the termination results from the default or insolvency of the Investment Manager. Additionally a Bonus fee is payable for the period from the last calculation of the Bonus fee (as described above) to the date of termination

	2001 $'000	2000 $'000
Manager's fee	**2,986**	2,500
Performance fee	**4,038**	–
Amounts paid and payable to the Investment Manager for the year	**7,024**	2,500

16. CONTINGENT LIABILITIES AND COMMITMENTS FOR EXPENDITURE

No contingent liabilities exist at balance date.

The Company has commitments for uncalled share capital on investments of $453,000 (2000: $407,000).

17. SEGMENT INFORMATION

The Company was engaged in investment activities on world markets and derived revenue from sale of investments, interest and dividends. The Investment Manager does not invest with any pre-determined asset allocation ranges as it uses a stock selection methodology. Accordingly the results of the Company are a function of the investment portfolio and its make-up is a function of the stock selection process. As the investment portfolio's composition varies dependent on stock selection decisions it is not considered appropriate to allocate revenues to some pre-determined contrived segment, which would be contradictory to the investment objective of the Company.

18. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact the financial position of the Company as at 30 June 2001 and the results for the year ended on that date.

19. RELATED PARTY INFORMATION

(a) DIRECTORS

The names of persons who were Directors of Platinum Capital Limited at any time during the financial year are as follows: MG Darling, PW Clarke, WKS Neilson, AM Clifford and RM Halstead. All of these persons were also Directors during the year ended 30 June 2001.

(b) DIRECTORS' REMUNERATION

Remuneration received or receivable by the Directors of the Company, including aggregate amounts paid to superannuation plans is disclosed in the Statement of Financial Performance and the Directors' Report.

The number of Directors of the Company included in the figures disclosed in the Statement of Financial Performance are shown below in their relevant income bands:

	2001	2000
$20,000 – $29,999	**2**	2

19. RELATED PARTY INFORMATION CONTINUED

(b) DIRECTORS' REMUNERATION CONTINUED

The three Executive Directors, Messrs Neilson, Clifford and Halstead, are employees of and have a relevant interest in the Investment Manager and accordingly will receive some portion of the management fee and performance fee; they do not receive any Directors' remuneration from the Company. Refer to note 15.

The number of shares in which the Directors have a relevant interest at balance date:

	2001 Ordinary Shares	2000 Ordinary Shares
MG Darling	**–**	–
WK Neilson	**1,506,369**	1,384,356
AM Clifford	**1,310,296**	1,204,164
RM Halstead	**1,297,225**	1,192,152

Number of shares of the Company acquired or disposed of during the year in which the Directors have a relevant interest:

ACQUISITIONS		
WK Neilson	**122,013**	116,527
AM Clifford	**106,132**	101,360
RM Halstead	**105,073**	100,350
DISPOSALS		
MG Darling	**–**	3,560,420

20. THE COMPANY

Platinum Capital Limited is a company limited by shares, incorporated and domiciled in New South Wales. Its registered office and principal place of business is:

Platinum Capital Limited
Level 4, 55 Harrington Street
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the review of operations and activities in the Directors' Report.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 24 to 49:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Company's financial position as at 30 June 2001 and their performance as represented by the results of its operations and its cash flows for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

MG Darling
Director

WK Neilson
Director

Sydney
6 August 2001

INDEPENDENT AUDIT REPORT TO THE MEMBERS

SCOPE

We have audited the financial report of Platinum Capital Limited (the Company) for the year ended 30 June 2001 as set out on pages 24 to 50. The Company's Directors are responsible for the preparation and presentation of the financial report and information contained therein. We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with the Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views, and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's state of affairs, the results of its operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion the financial report of the Company is in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2001 and of its performance for the financial year ended on that date; and

   (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers
Chartered Accountants

PK Merrett
Partner

Sydney
6 August 2001

FINANCIAL CALENDAR

Annual General Meeting	**25 October 2001**
Ordinary Shares trade Ex-Dividend	**29 October 2001**
Record (books close) date for Final dividend	**2 November 2001**
Final dividend paid	**9 November 2001**

These dates are indicative and may be changed.