PLATINUM CAPITAL LIMITED

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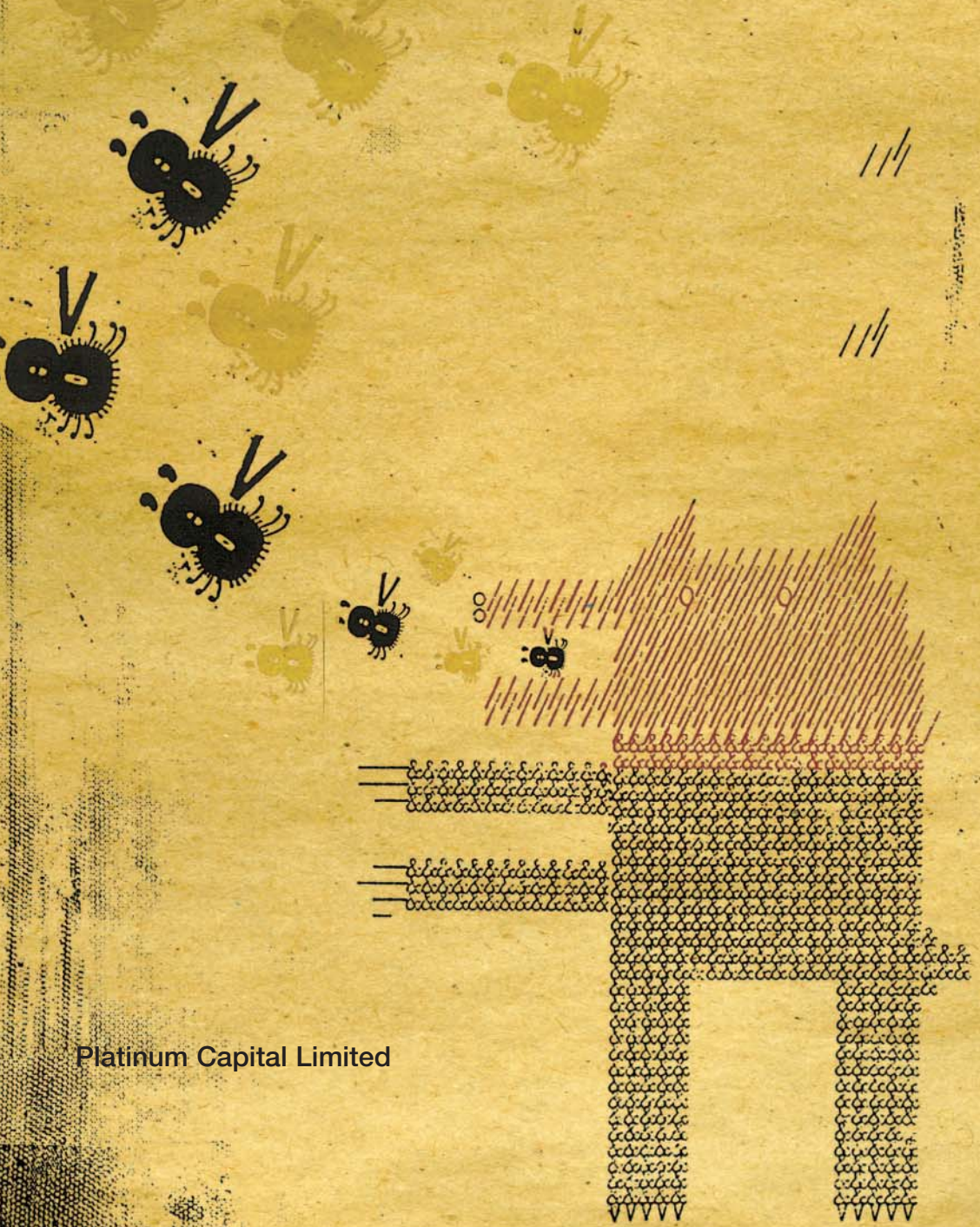
DRAWING LESSONS



Platinum Capital Limited

DRAWING LESSONS... THOSE WHO CAN'T REMEMBER THE PAST ARE CONDEMNED TO REPEAT IT.

CORPORATE FINANCE VERSUS CORPORATE STRATEGY

John Kay
How to create true shareholder value

MR MARCONI'S MUSIC

Jock Given
On what the birth of radio can teach us about our own communications revolution.

INTRODUCTION

If one were limited to choosing two words which best captured the mood of the bubble that is now gradually deflating, **technology** and **expediency** come to mind. The attraction of the word technology is that it describes both the underlying thematic driver of the IT boom, and equally (if obtusely), the mechanism that contributed in the funding of the boom. Today, derivatives have become an integral part of modern business management. The necessary record-keeping to track and calculate the various obligations associated with fractional ownership of say, a securitised pool of credit card loans, would barely have been possible as recently as 1990. But it was the evolution of computing power and mass handling of data regarding interest payments, principal returns, loan extensions etc that allowed loans to be packaged and sold off to the public at large. The importance of this was the marshalling of resources outside the traditional banking system (together with low inflation and easy money conditions) that partly facilitated the hopes which were borne on the wings of technology. From small beginnings, mortgage and personal debt securitisation now accounts for about US$4.5 trillion, or more than half of outstanding personal debt. The promise of the internet and the notion of transmitting information at the speed of light gave investors all the creative energy needed to let their imagination run free. When combined with the illusion that others could emulate Microsoft's business economics (ie. somehow achieve monopolistic-like positions), there was a veritable explosion of fantasy.

The second word chosen, expediency, admirably describes the mood of the day. Many thought that the 1990s represented the calm afterglow that followed the "greed is good" mentality of the eighties which was immortalised in the film *Wall Street* (featuring Michael Douglas). The crowd was dead wrong. In retrospect the eighties was just the warm-up session for the serious corporate plundering and fraud of the nineties. Stock options which were last popular in the 1960s returned with a vengeance. It was not uncommon for as much as 20% of a company to be given to employees (mostly management) virtually for free, with barely a whisper from shareholders. Rather like the slogan of the pigs in Orwell's *Animal Farm*, "some animals are more equal than others", the chant of "shareholder value" shrouded any critical analysis and the myth grew that talent could only be attracted with bundles of stock. Like all myths there was some truth relating to the alignment of interests (between management and shareholders) but when stock options have very short vesting periods and are issued with a hurdle that is way short of a company's inherent earnings power, the concept of alignment degenerates into gentle confiscation. Long-standing shareholders will recall our bleatings on this subject in the 1998 report.

Expediency also revealed itself in accounting practices and in some cases these shenanigans proved so successful that executives found fraud irresistible. Reminiscent of the deceptions that court officials played on Catherine the Great of Russia with her grand tour of fake villages, the officers of Enron rigged up a sham trading room in Houston for the benefit of visiting investment analysts. It is extraordinary that executives could believe the economy would keep levitating and so somehow provide an environment that would allow them to conceal the frauds and misrepresentation. Like some great Ponzi scheme, the idea was apparently to hand over the reins to the next CEO before the game was up. Inevitably the truth could not be hidden, but hope and greed are a powerful concoction. This itinerant behaviour by CEOs was in no way discouraged by the generosity of back-scratching remuneration committees. Nor was corporate governance helped by allowing the combined role of CEO and Chairman. So, in an environment of extreme disparity in rewards between the highest paid and the average employee, how are mere mortals to keep balance and exercise prudent judgement? History suggests few would pass the test.

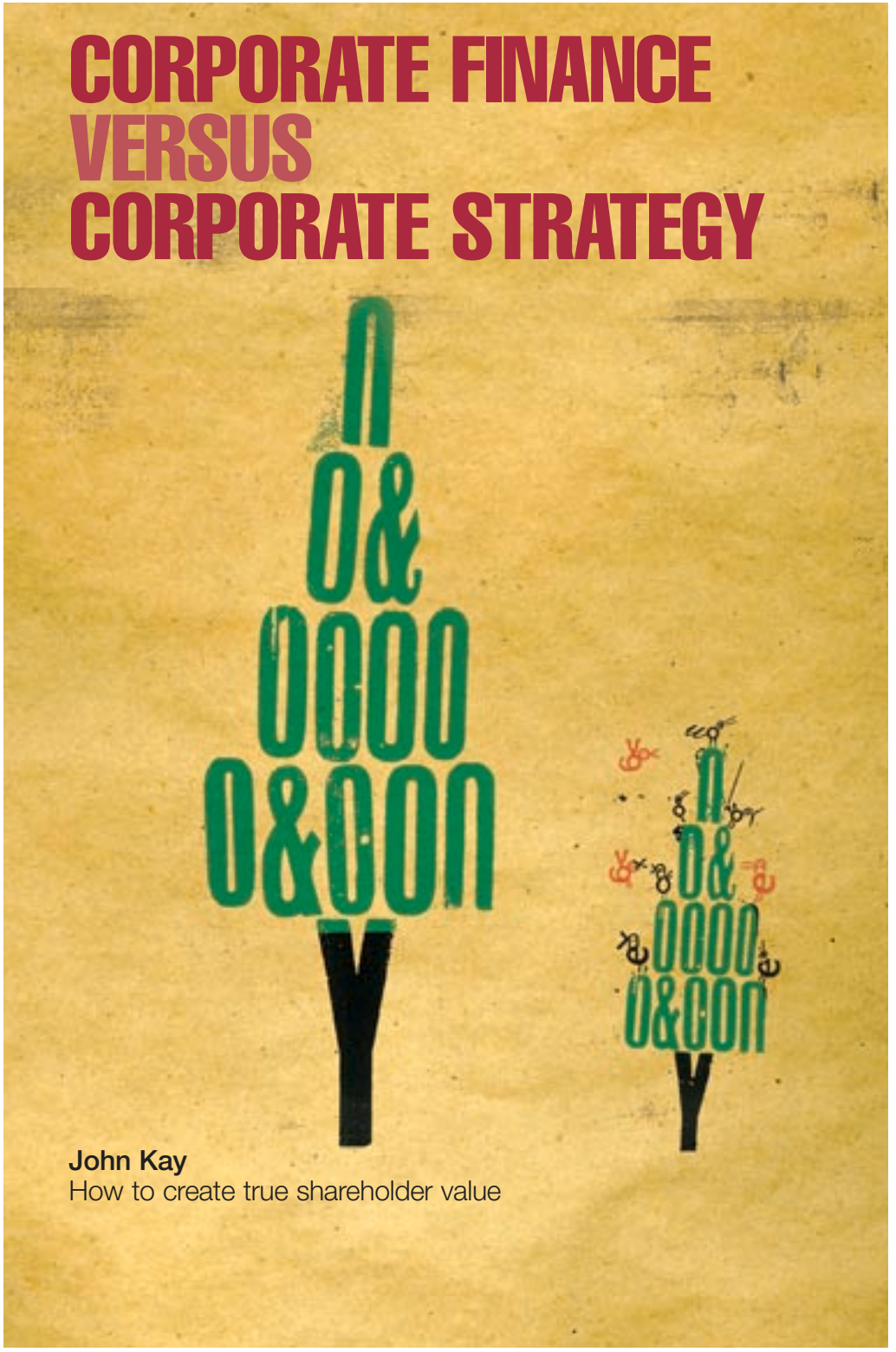
Where is this potted picture leading us?, you may ask. To maintain our tradition of attempting to give shareholders interesting insights, the topics in this report cover the subjects of short-termism/expediency and technology. John Kay, who is a writer with the Financial Times, has provided us with an excellent historic perspective of the costs of short-termism, and also with glowing examples of its antithesis. He highlights how short-term pressures or a misreading of a company's inherent strength has often led to disaster, while pursuing long-term objectives can produce surprising outcomes. It is what he describes as the "principal of obliquity". He points out that corporations cannot directly target shareholder value any more than individuals can directly target happiness, because of the complex interaction of forces and events. The issue is for firms to clearly establish what is their "distinctive capability". Others use the term "sustainable comparative advantage" and it can be quite subtle and even fragile. Strategies can be built around a firms distinctive capability, so long as even when competitors have identified this 'secret', they cannot replicate it. In essence Kay believes that if companies try too hard at enumerating goals, sight can be lost of the subtleties, and this very practice can lead to failure.

INTRODUCTION

Mr Marconi's Music by Jock Given, makes fascinating reading in the aftermath of the internet bubble. He takes us through the thinking of the early 1900s regarding potential uses of the invention of wireless transmissions. As is so often the case with new products, the initial uses are securely tethered to the past. At the outset the wireless was sold well short of its potential and required sound lateral vision to extend its use, which ultimately completely usurped the original concept. We have included this essay to alert shareholders to the extended time frame involved in the rolling out of significant new technologies (even if they have accelerated) and the likelihood of surprises that may be in store for us with the internet.

I hope you gain some value from these two articles.

Kerr Neilson
Managing Director



CORPORATE FINANCE VERSUS CORPORATE STRATEGY

I would like to start by reminding you about one of Britain's great industrial success stories: the creation since the Second World War of a world class pharmaceutical industry. I would like to remind you how the creation of that industry came about. The story goes back to the end of the Second World War, when ICI, as Britain's leading chemical company – indeed, at the time, Britain's leading company in almost every sense – decided that the future of the chemical industry probably did not lie in dyestuffs and explosives (which had been its traditional businesses) and that money was to be made in future by applying chemistry to the pharmaceutical business.

As a result, the ICI Pharmaceutical Division was set up. This was a time when very few graduates went into business and ICI was one of the very few large British companies able to recruit people who might otherwise have gone into careers in academic chemistry in universities.

One of the people ICI recruited was a lecturer at Glasgow University, James Black. The development of ICI's pharmaceutical business took a long time. In fact, ICI's pharmaceutical division lost money for very nearly 20 years. But in the early 1960s, Black and his team at ICI discovered a category of drugs called beta blockers, the first drugs to be effective against hypertension.

The discovery of beta blockers led ICI Pharmaceuticals to move into profit for the first time. However, later in the 1960s Black and ICI management fell out. Black believed that the basic physics and chemistry which underpinned beta blockers – essentially what are called blocking receptors, which stop certain chemicals being transmitted across the body or across barriers of the body – probably had a wide range of applications. Black's managers at ICI were more interested in getting Black and his team to develop and sell more beta blockers: they had a profitable product for the first time. Black decided to leave ICI and joined SmithKline.

It soon turned out that Black had been right. The physics and chemistry were applicable in other ways. The next application that Black came up with was devising a drug which basically stopped – or inhibited in the same way – the secretion of stomach acid and was, therefore, the first effective anti-ulcerant. The drug he discovered at SmithKline was marketed as *Tagamet* and it became a major success world-wide.

However, it was not SmithKline and *Tagamet* which proved the real success story with these kind of drugs, but another British company, Glaxo. After Black published his initial results, Glaxo reorganised its modest research programme in this area and came up with a drug similar to *Tagamet* in therapeutic effect, but which was slightly better and marketed much better. That was the drug we now know as *Zantac*, which turned Glaxo from a small business producing baby foods into one of the world's major pharmaceutical industries.

ICI's initial decision to go ahead with blocking receptor therapies laid the foundations for the creation of three major drug companies that form the basis of today's British pharmaceutical industry: ICI Pharmaceuticals (now part of AstraZeneca), Glaxo and SmithKline. I believe if this story were replayed today, 30 to 40 years later, we would see two big differences.

1. In today's climate, would anyone invest in a business which lost money for nearly 20 years? And one which had no major products or projects after a decade and did not seem to be in the top two or three in any of its any important markets?

   It is almost certain that if a British firm were in that position today, it would either close or sell the loss-making division. We could assume that when the ICI board discussed the issue in the late 1950s, they were convinced that it was possible that 30 years later on they would have a business worth considerably more than the whole value of the company at the time, which would create shareholder value on a massive scale over a 30 - or 40 -year period. (ICI may have begun life as a major chemical company, but it is now a rather minor chemical company and a large pharmaceutical business). However, I suspect that anyone trying to argue this case today would not be well received. And I doubt anyone would actually try to do so.

2. Would today's unhappy Professor Black be able to develop his skills elsewhere? When Black became dissatisfied at ICI, he had quite a range of alternatives available. Nowadays, his job choices would be a good deal more limited. There have been cost savings from the reduction in duplication of research which has arisen from merging Glaxo, SmithKline, Beecham, and Wellcome into one single company. However, if you believe that pluralism is the mainstream of innovation and that it is the variety of businesses competing with each other that gave Britain a major pharmaceutical industry (despite all the resources devoted to medicine in the Soviet Union, no important drugs emerged from there), you may share my concern that there are so few options for research chemists today.

CORPORATE FINANCE VERSUS CORPORATE STRATEGY

I've talked about what is probably the greatest success in terms of British industrial development over the last 50 years. I now come to what is one of the greatest disasters of the past five years, Marconi. I believe what went on there was the archetype of what I have come to regard as a view of business as 'meta fund management' – the notion that the job of a FTSE-100 company's CEO is to manage a portfolio of businesses rather like the job of an investment trust manager is to manage a portfolio of shares. In my mind, there is no doubt that what Mr Mayo thought he was doing at Marconi was precisely that. He describes this period of the company in terms of the construction of a varied and more growth oriented portfolio of businesses. Moreover, he expected to be judged, just as a fund manager would be judged, on the total shareholder return which he earned on that portfolio over his period of tenure.

Despite some rather complicated ways in which Mr Mayo sought to do his calculations, that return was not particularly favourable from the point of view of the former GEC shareholders. However, that hindsight is not the point. With hindsight, we know that meta fund management did not succeed. But, with foresight, I think we should realise it was quite unlikely that meta fund management could have succeeded. It is quite difficult to make money as a fund manager buying and selling individual shares when the transaction costs of moving in and out of specific shares are relatively small. The transaction costs of moving in and out of whole companies are considerably larger, and the probability of successfully employing a strategy that will make money is inevitably that much lower.

I believe that what happened at Marconi was simply an exaggerated version of what, rather sadly, has happened over the same period to the rump of ICI, where there has been exactly the same process of a company deciding to move out of a portfolio of what it considered rather boring businesses into one of more exciting businesses, with, unfortunately, rather similar results. A range of academic studies concludes that merger and acquisition activity as a whole is not profitable. Furthermore, it seems far less likely to be profitable when what is being engaged in is a process of portfolio management and when there are no specific attributes that relate the distinctive capabilities of the company making the acquisitions to the portfolio of businesses it is acquiring.

I would like to explain precisely how effective business strategies are built around recognition of companies' distinctive capabilities. I want to present what is

essentially a paradox in the relationship between corporate finance and business strategy which is bluntly – as illustrated by the examples I have already described – that firms will very often create more shareholder value if they devote less attention to the way their activities are viewed in financial markets. It is the extreme version of the paradox I will address at the end of my presentation: I believe you are more likely to succeed in creating shareholder value if you try slightly less hard to do so.

The last five years have been the most interesting of the last fifty for someone who does my type of business economics. When I was a student, I read about some of the extraordinary speculative booms and busts in history and wondered how people could have been so stupid. I now have the great advantage of having seen one for myself – and I understand why! I believe that the past five years have, more than anything else, put economic systems on trial. You will have heard the old joke about the central European peasant with two cows who experiences many different regimes and economic systems over his lifetime. I use this story to show how I think new economy capitalism has worked.

The Story of the Peasant with Two Cows...

The Ideology	What Happens?
Socialism	We take away one of the cows and give it to someone else
Communism	We take away one of the cows and kill it
Fascism	We take away both cows and kill the peasant
Capitalism	We sell one of the cows and buy a bull
New Economy Capitalism	We sell both cows to our neighbour, we buy his two cows and book the 20-year expected revenues from the sale of milk to our P&L account. We transfer one of the cows to a special purpose entity, take out a lease on it with an option to put it back to the company at the price we paid for it when the cow dies. We then take an option on another cow, mark it market right away and put that in our P&L. We then take a photo of all five cows for our annual report and auditors proclaim the profits we have made over the period. But what happens when we need to produce the milk?

CORPORATE FINANCE VERSUS CORPORATE STRATEGY

I think new economy capitalism is about multiplying cows without the aid of a bull. It works for a time but starts to pose problems when people ask about milk supplies. I think if people had asked where the milk was rather more frequently over the last three to four years, they might have made slightly fewer mistakes over this period.

I will now turn to some companies which I believe show the limits of calculation as the cornerstone of corporate strategy. I will begin with the story of Marks and Spencer, which was long one of the oldest and best-regarded British companies. Marks and Spencer's commitment to employee welfare began back in the 1930s when Simon Marks went around his stores, in the way that Marks and Spencer managers traditionally did all the time. One of the employees fainted while he was in the store because her husband was unemployed and she had not had enough to eat. Simon Marks then decided that the kind of business he wanted to run was not one where that could happen to employees. He did not reach his decision after calculating whether subsidised meals for employees would lower employee turnover to an extent that more or less offset the cost of the provision of the meals. Instead, Marks worked with a view of the type of business he wanted to build.

I believe this view was rather similar to that of George Merck at Merck Pharmaceuticals who said at about the same time 'we never forget that medicine is for the people'. He also said 'if we never forget that, the profits will come', and indeed they did! And they have continued to come.

So Merck and Marks started with the proposition that they were going to build businesses in certain ways. For a long time, both companies continued in that vein. In the last decade, Merck took a somewhat different tack when it discovered that its profits in the US were under threat from benefit managers who reduced the margins it made on pharmaceuticals. This discovery prompted Merck to make its first major acquisition.

In my view, corporate strategy which is focused on portfolio-building acquisitions is a bit like saying to a highwayman who threatens 'your money or your life' that you think your best strategic choice is to buy the highwayman's business. I believe one of the more common strategic mistakes over the last ten years is the one that mobile phone companies made when they tried to reduce the effect of costly roaming charges when their phones were used in other countries. They responded by forming alliances with the businesses making these charges or by acquiring them.

I think there are two problems with this strategy:

1. Paying out the net present value of the 'highwayman's' profits and a control premium is rather more expensive than going on paying the highwayman.
2. Even once one specific highwayman has been removed, there is nothing to stop others taking similar positions on the road later on, which is precisely what I believe has happened in these cases.

Strategy is about something different, therefore. To show this, I will turn to another company with a long, chequered and rather spectacular history, BMW. It started up during the First World War, mainly as a manufacturer of aero engines, which was its principle business right through to 1945. But, in 1945, being Germany's leading manufacturer of aero engines was not particularly good business. And life for BMW was made still worse by the fact that its largest factory was in the Soviet occupation zone.

Many German companies recovered from such situations very quickly after the Second World War but BMW did not. BMW drifted throughout the 1950s, producing limousines which compared unfavourably with Mercedes, as well as bubble cars called 'Go-go-mobiles' which were not very widely purchased. At the end of that period, BMW was on the verge of bankruptcy and a takeover by Mercedes seemed its only option. Instead, Herbert Quandt, already a large shareholder in the company, consolidated his shareholding and took over effective management control of the business. He then focused the company on an existing model, the BMW 1500, which became the first high-performance production saloon.

BMW defined a new market segment which involved higher quality production line engineering that anyone had previously brought to the volume car market. It was that top-of-the-market positioning – which BMW was able to achieve with its German workforce and background in aero engines – which enabled it to come up with what was then a distinctive product and which formed the basis of the success of the modern BMW company. Furthermore, once BMW had established a market niche for itself, it developed the brand and reputation now associated with the company. Even though there are several other car companies which can now match BMW's production line quality, BMW still remains a major producer within the global car market – because it has transferred its distinctive capability to its brand and reputation.

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What BMW failed to do in the early post-war period, but did so successfully in the 1960s, was to match its distinctive capabilities to the markets in which it operates. BMW's distinctive capability was its relationship with its skilled German workforce from which it built a brand and a reputation. Distinctive capabilities mean not just the capability of the company, but a capability that others find difficult to replicate, even when they understand and see the benefits it can generate for the company that originates it.

We need to define what are true distinctive capabilities. When we look at ICI's story, we might assume that vision is an important contributory factor. ICI Pharmaceuticals became a successful company as a result of its vision of a developing global chemicals market. However, I believe that what made ICI able to realise that vision distinctively was the fact that it was able to recruit the scientists needed to secure the positioning, while others in similar fields at the same time could not.

Vision on its own is not enough, as I think is illustrated strikingly by AT&T's experiences in the second half of the 1980s. AT&T believed that a major part of the global economy would, in future, be based on the convergence of computing and telecommunications. That vision was, of course, more correct than anyone could have imagined at the time. As the US's leading telephone company, AT&T seemed in a strong position to realise this particular vision. But it bought a second rank computer company, NCR, and made a mess of integrating it. AT&T disposed of NCR five years later, having lost a great deal of money, Marconi-style, on the acquisition and disposal and, in my view, having failed to understand how computing and telecommunications were really going to converge in the global market.

In other words, vision is needed in business, but the ways to realise visions are unpredictable in form and timing and it is rare for successful distinctive capabilities to be built in the long term on the basis of vision alone.

Similarly, positioning looks to a lot of companies to be a source of competitive advantage, but is not sustainable because a competitive advantage based on positioning alone can easily be replicated. I think this case is most effectively illustrated by Next, back in the 1980s. George Davies at Next discovered there was a market niche for fashionable clothing for women who were slightly older than those catered for by traditional fashion retailers. Davies built Next into rather an effective business for a time, based upon just that position. But two things then happened – and I believe both were very predictable:

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1. Other established retailers invaded the niche identified by Next.
2. Next came to believe that its success was not due simply to positioning, but to a retailing genius that could be applied to virtually everything from financial services to pot plants. It went on an acquisition spree which ended, in the mid-to-late 1980s, in near disaster for the company.

Another British company, Ratners, seems to have gone through a very similar process. Ratners found a market niche for jewellery that was cheaper than anyone had previously considered it possible to sell. Ratners then went through exactly the same kind of process as Next.

Nor is there a distinctive capability in scale, which is the characteristic that seems to dominate discussions of corporate strategy. If we look back to the 1950s, the global automobile market effectively comprised three large companies: General Motors, Ford and Chrysler. At the time, some assumed that there would be no new entrants to the global car industry. How wrong could they have been? It would have been regarded as mad to suggest that General Motors might eventually be overtaken as the world's largest car manufacturer by a company that was, at the time, a rather small Japanese textile machinery maker. But that is exactly what happened. A little later, the British government in the 1960s decided to merge the whole of what remained of the indigenous British car industry into one firm to create something with the size and scale necessary to compete in world markets. In fact, British Leyland was created in the same year that Honda manufactured its first motor car. I believe there is no more effective illustration that scale is no protection to a company that lacks competitive advantage, and, equally, that lack of scale is no long-term obstacle to a company with a real competitive advantage based around distinctive capabilities.

In my view, the distinctive capabilities that form the basis of successful strategies are, typically: architecture – structures of relationships, the kind of thing that has traditionally given competitive advantage to companies like Benetton and Marks and Spencer; brand and reputation – the kind of thing that is the basis of Coca Cola's competitive advantage and continues to constitute the competitive advantage of the world's big four (once the big five) accounting firms. I see the accounting firm example as a reminder that reputation and brand can be destroyed a great deal more quickly than it can be built up. The kind of brand and reputation enjoyed by the big four is probably now impossible to replicate on a global scale, though, as we have been discovered, it can be destroyed.

Some distinctive capabilities are based around strategic assets, essentially things that other people are unable to do simply because they are not allowed to – the strategic assets that Microsoft enjoys from its copyrights, from the source code in the first instance of MS-DOS and then the Windows platform which was constructed on that basis.

Finally, firms can acquire distinctive capabilities from innovations. I have talked about Glaxo's success in this area, but in many respects its success is far more due to its strategic assets than its record of innovation. The product that made Glaxo a success was not, in scientific terms, a particularly original achievement. In fact, the originality came from James Black at SmithKline, rather than from Glaxo. It is hard to build competitive advantages on innovations in most markets because most innovations can rapidly be replicated. That is true in the financial services business, for instance, and is why I believe competitive advantages based on innovation typically rely less on actual innovations than on certain companies' ability to build themselves a reputation as innovators. Thus, Sony's competitive advantage is not built around a single innovation but from an extraordinary series of innovations.

To sum up, I believe that effective corporate strategies are built around firms' distinctive capabilities – their capacity to do things others cannot replicate, even after they see the advantages they generate for the originating company. The sort of capabilities that generate competitive advantages are listed in the first column of the table below. By contrast, I believe that the characteristics listed in the second column share a common flaw – they may prove successful for the originating companies, but they can all be replicated by others.

What Are Distinctive Capabilities? And Who Has Them

Yes	No
Architecture Benetton Marks & Spencer	Position Next Ratners
Brand & reputation Andersen Coca Cola	Vision AT&T
Strategic assets Microsoft	Scale GM
Innovations Glaxo Sony	

Source: John Kay; Financial Times Columnist and Economist

CORPORATE FINANCE VERSUS CORPORATE STRATEGY

I will turn now to some more recent implications of this type of analysis. I believe that many of the problems we saw in the 1990s arose because we expect too much from companies. I believe our earnings growth expectations are frankly unsustainable if new revenues are to be generated by distinctive capabilities. I see Marks and Spencer as the most forceful example of the kind of problems that arose from overly high expectations in Britain in the 1990s. Marks and Spencer's amazingly powerful competitive advantage was based, in my terms, on two main sources: architecture (the structure of its relationships with its employees and suppliers); and brand and reputation – a brand and reputation almost without parallel in the history of British business.

In the 1990s Marks and Spencer came under pressure to generate faster earnings growth than its brand and reputation could actually deliver. This pressure resulted in inflicting long-term damage on both the structure of Marks and Spencer's supplier relationships and on its brand and reputation. I believe the key aspect of the Marks and Spencer story is that, in spring 1998, just before it 'fell off the cliff' and gave its first profit warning, Marks and Spencer actually reported the highest profit margin on sales in the company's history.

I think the Lloyds TSB story reveals similar lessons. Lloyds TSB's strategic positioning was based on an understanding that its core distinctive capabilities stemmed from its position in the UK retail financial services market (something which other British clearing banks seemed unable to recognise at the time). I believe it began with the principle (a useful one for all businesses to remember) that the easiest way to start making more money is to stop losing it. That's what Lloyds TSB did, but what several of its competitors could not. However, it came under pressure to generate higher increases in shareholder value than its base was capable of and was forced to go on an acquisition spree of the kind that is only sustainable – and can only even appear to be so –if you keep on making larger and larger acquisitions.

Companies have been expected to generate at least double-digit, and typically more than double-digit, increases in earnings per share in an economy in which GDP – even in money terms – is growing by no more than five per cent a year. It is simply not possible for many mature businesses to generate this level of earnings from their distinctive capabilities. My argument is that we have encouraged many companies to undermine their core distinctive capabilities by expecting earnings per share growth which is not sustainable from their competitive advantages.

This returns us to the paradox that too much attention to shareholder value can destroy it in the long run. I have come to term this 'the principle of obliquity', a phrase I learnt from the pharmaceutical pioneer, James Black. Black told me that when he worked at ICI he kept telling people that if they wanted to make lots of money, there were a lot of easier ways of doing it than getting into the pharmaceutical business. He later realised how wrong he had been, deciding that ICI's success was evidence of 'the principle of obliquity'. I regard Black as someone who has created more shareholder value than many of the lionised chief executives who have given far greater emphasis to the concept of shareholder value. I take the view that shareholder value is often created unintentionally.

We see a similar paradox in psychological literature on happiness. We are repeatedly told that the way to become happy is not, to use the phraseology of the American Constitution, to set out in pursuit of happiness.

The greatest utilitarian of all in this was John Stuart Mill, who advocated all his life the pursuit of the greatest happiness for the greatest number. His autobiography says:

'I never, indeed, wavered in the conviction that happiness is the test of all rules of conduct, and the end of life.' But he came to see 'that this end was only to be attained by not making it the direct end. Those only are happy (I thought) who have their minds fixed on some object other than their own happiness'.

I believe there are fundamentally two reasons why this is true. First, the achievement of happiness depends not just on ourselves but on our relations with others. And, secondly, what it is that contributes to happiness is both complicated and only very imperfectly understood. I would suggest that both of these are as true of the pursuit of profit as they are of the pursuit of happiness.

One of the best business books of the 1990s is by James Collins and Jerry Porras, where they looked at several paired comparisons of companies. Their generalised conclusion was that of the pairs they looked at, the more profitable of the two was characteristically the one that was less profit oriented. I believe that is the paradox achieved for so long, and so effectively, by companies like Merck and Marks and Spencer: they did not regard profit as their paramount objective, and the result of this strategy was that they made profit.

CORPORATE FINANCE VERSUS CORPORATE STRATEGY

I conclude by reiterating that strategy is not about meta fund management. Strategy is fundamentally about matching distinctive capabilities to the markets in which companies operate. It is possible for companies to try too hard to maximise shareholder value. In my view, many of the corporate failures we have seen in the last five years (and we will undoubtedly see more in the next five) are the product of too much financial orientation and trying too hard to maximise shareholder value in the sense I describe it.

Questions and Answers

Question: I would like to ask John Kay whether he would preach his key message (that you can create more shareholder value if you do not listen to your shareholders) to Japanese companies? For example, if the CEO of Matsushita Electric or Hitachi were here, would he tell them the same story?

John Kay: Japanese companies began by creating unbelievable amounts of shareholder value and then in the 1990s the Japanese economy succeeded in destroying most of it again. The paradox of the Japanese boom was that Japanese companies' lack of concern for shareholder value did not stop them creating extraordinary amounts of it. The paradox of the Japanese recession was that what destroyed so much value had very little to do with the behaviour of the companies and a lot to do with the behaviour of Japan's financial sector so I believe that the story is not really that different.

Question: You asked, 'would it be possible now for a company to do what ICI did several decades ago, which was to watch a division lose money for about 20 years and not close it down?' You then set out two rules or further propositions you considered sensible when thinking about how you evaluate companies. One was to ask, 'where's the milk?' which is a good question; not asking it can lead to problems like ludicrous valuations of companies. The other proposal you put forward as a sensible idea was this: a good way to make more money is to stop losing it. There seems to be some tension between these two propositions and your suggestion that we have gone wrong because we do not now allow companies to hold on to divisions that carry on losing money for 20 years. Surely the easiest way for a company to stop losing money would be to shut down its loss-making divisions?

John Kay: It is clear that the ICI board in the later 1950s should have thought seriously about closing down its pharmaceutical division. But it did have plausible reasons for keeping it going. ICI had the capacity to exploit its strong British science base, which none of its competitors in that particular business enjoyed. It therefore had a clear distinctive capability in its particular business even if it took a long time to turn that capability into profit.

We know with hindsight that the ICI board would have made a big mistake in shutting down the pharmaceutical business. But even with that hindsight, I cannot say for sure that the board made the right decision in the 1950s, when it elected to keep it going.

Question: What is the City's function if not to promote M&As or meta fund management?

John Kay: The function of the City is to provide: (a) a secondary market in securities, both equities and debt; and (b) to enable that secondary market to function efficiently on the basis of a proper understanding of what it is that companies do, related to these strategies. Fund management is a perfectly proper activity as a process of managing a portfolio of shares, but it is not a proper activity as a method of managing a company as a portfolio of businesses. That portfolio of businesses should relate to a company's distinctive capabilities, which are the criteria for effective and appropriate M&A activity. I am not claiming that no M&A activity is ever appropriate, but I do believe it would be appropriate for a lot less M&A activity to take place, and in particular a lot less than has happened over the last decade or so.

Question: The ICI story is very interesting, but what happens when we look at all companies that have lost money for 20 years? Is there any evidence that 20 years of losses can ensure profits? What if Mr Black had moved to another company (for example, Bayer in Germany) and had been able to start developing the application of his theories without needing to incur 20 years of losses?

John Kay: The purpose of giving examples is not that a single example can prove a case but that a single example can illustrate a proposition. The facts of this specific case are that that if Black had not been at ICI in the 1960s, there is little doubt that he would have been at Glasgow University. He would not have been at Glaxo and most certainly not at Bayer. I cannot offhand think of a company that had a substantial division that lost money for 20 years or more and was then

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forced to close the division after deciding that 'enough was enough', but there no doubt are examples of such companies.

We must remember that the world is both complicated and uncertain. The reason companies cannot maximise shareholder value as an explicit objective is that none of us has enough knowledge to know what the strategies are that would enable us to do it. That is a fundamental reason why I believe this particular objective cannot be an appropriate one. ICI took the view that it had a major position in the chemical industry, with an extraordinarily strong position in relation to the British science base, and that its job was to find the most effective ways of leveraging these capabilities. In the same way, Simon Marks set out to build a great retailing business. He managed to do so, and the result was that he generated an extraordinary amount of value for Marks and Spencer shareholders in the process. That is the order in which these things happen: the strength of the business generates the shareholder return.

Question: Following the disastrous Marconi experience and the somewhat belated market scepticism over Gerstner's supposed achievements at IBM or even the scale of Welch's achievements at General Electric, are you optimistic that the market itself will begin to drive management behaviour in a more sensible direction? Have the last few years led to a sea change that could last for a time? Or are you not optimistic?

John Kay: I am mildly optimistic that two aspects of the last 20 years will diminish over the next few years. First, I hope the view of the heroic CEO has now reached its peak and will decline.

There are some good things about this view. It is good that business people are more public figures, and more admired than they used to be. But the idea that everything that happened at GE over the last 20 years is a reflection of the will and personality of Mr Welch is so much at variance with reality that it helps very little with our thinking about business. Over the last century, the chief executive of GE has always been the most admired chief executive in the United States. When Welch took over from Reg Jones in 1980, two-thirds of US CEOs viewed Jones as the best CEO in the US. Jones's predecessor, Ralph Cordiner, had been just as highly thought of. I think this tells us as much about GE as a company as it does about Welch, Jones and Cordiner as individuals. It is clearly an extraordinary company that has produced remarkable and unquestionably able chief executives.

By contrast, I've been thinking that it is time to write about M. Messier as the archetype of a heroic CEO before he is no longer available as a target.[1] I would hope that particular type of cult will disappear.

In a much broader sense, I believe it is inconceivable – whatever view one takes about recovery this year or about the future development of financial markets – that the growth in financial markets in the next 20 years will match the growth of the previous 20. It is equally inconceivable that share price performance over that period will match that of the last 20 years. I regard the belief that companies can generate double-digit EPS growth rates indefinitely as not just a fantasy but a fantasy whose continued acceptance distorts sensible long-term corporate planning in serious ways. I hope that some of the mistakes that have been made over the last decade, more and more of which are emerging as some of the sillinesses of the final stages of the boom of 1999/2000 unwind, may result in less financial orientation and more focus on creating value in operating businesses.

Question: It strikes me that what you are talking about is long-termism versus short termism. The ICI example in the 1950s shows a company willing to lose money, perhaps unintentionally, for a long period to get a return, whereas in the City people try to cope with daily share price signals. Can we suggest something practical here in terms of the way that share price signals should be interpreted and acted upon by companies? On the one hand, perhaps, an increasing reliance on long-term corporate bond financing may reduce managers' tendency to chase the fast buck. On the other hand, maybe there is something to be said about the way that business managers are compensated these days, as compared with the 1950s. Is there anything practical that can be done to convince markets to do more to support long-term shareholder value, rather than more short-term objectives?

John Kay: It is probably a gradual process of education. I would feel happier if there were fewer companies that had boards displaying their current share price in their reception areas, for instance. That would be just one aspect of executives paying less attention to day-to-day fluctuations in their share price, and they might be more inclined to do this if less of their remuneration took the form of share options.

I had a very interesting conversation a few years ago with the chief executive of a major company on what the manager of a business should do when it was

1. Editor's Note: Jean-Marie Messier left Vivendi Universal abruptly on the 3rd July 2002.

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obvious that its share price was substantially over valued. It became quite clear that the only sensible answer to the question was to ignore the share price and to continue running the business with the aim of getting the best long-term returns for customers, employees and investors. I would regard that as the only sensible strategy for any company, regardless of the level of its share price.

Problems can arise if chief executives are compensated for company earnings. Several years' ago I wrote an article about the fact that most low paid workers used to be employed on various forms of performance-related pay schemes. These schemes for low paid workers were gradually eliminated when managers discovered they got better work out of people if they had the kind of commitment to the organisation that was involved in simply being paid a wage. It is paradoxical that at the same time as people realised that was the case with average and low paid employees, they came to the exact opposite conclusion in relation to highly paid employees. I am inclined to the view that what is sauce for the goose is sauce for the gander. If someone who is already being paid a million pounds a year in base salary needs an incentive scheme to persuade him to run the business properly, he is probably not the person who ought to be doing that job and earning the million pound salary in the first place!

Question: Can fund managers try too hard to maximise returns? I notice that the average holding period for shares over the last 20 years has fallen from seven years to 11 months. I wonder if someone who owns something for 11 months is in fact an owner at all?

John Kay: My first reaction is to say no. Fund managers' jobs are different from those of chief executives: they cannot do other than try to maximise returns. In a sense, though, the same obliquity paradox that I described probably holds as true for fund managers as it does for corporate executives. We do not understand enough about the environment we are operating in for it to be likely that we could make returns at this kind of frequency. Warren Buffett says that he never expects to sell a good business that he holds. This sounds as if it contradicts the basic principles of fund management, but, as we all know, in terms of results this strategy has not worked out too badly.

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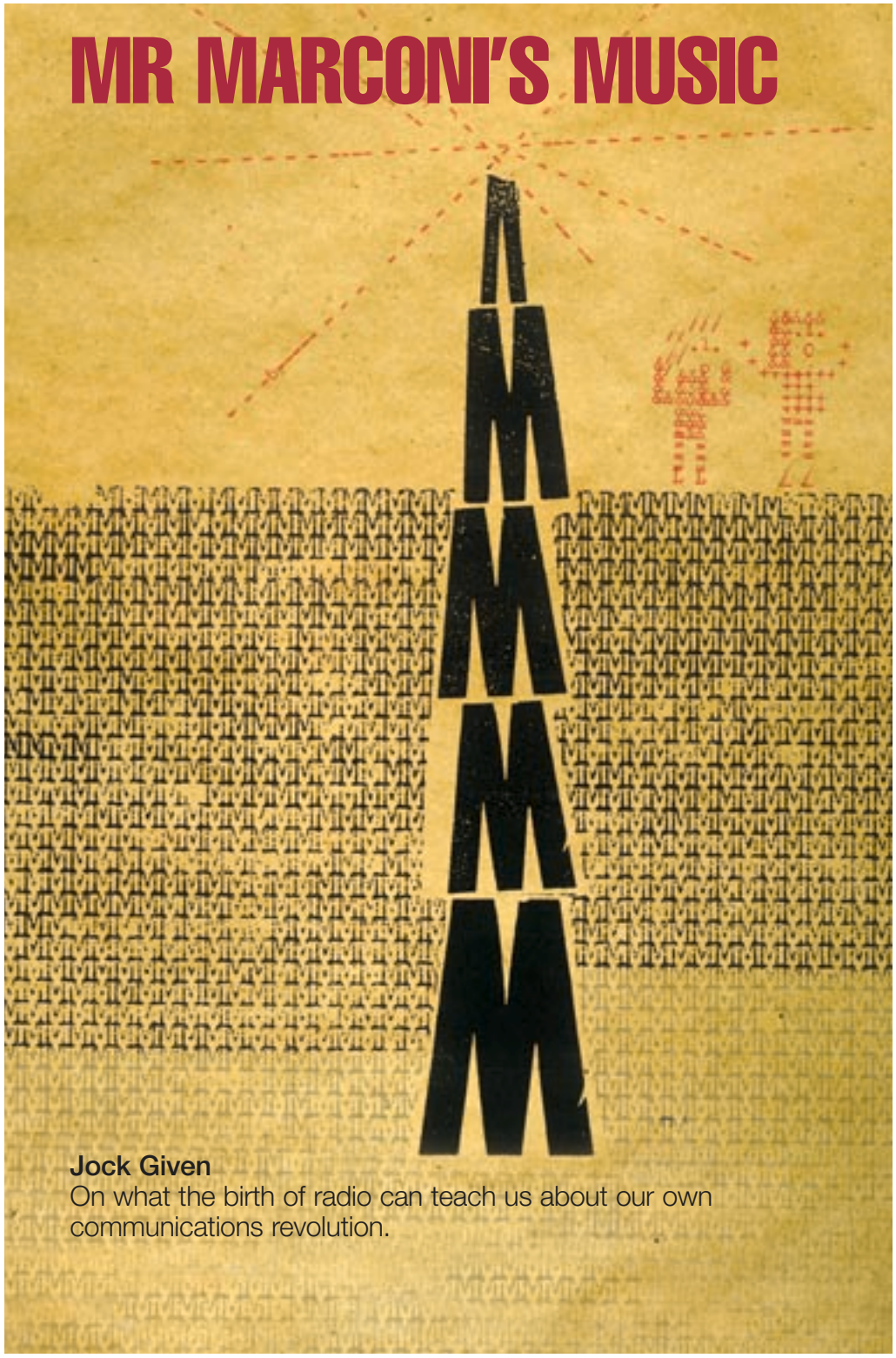

Jock Given
On what the birth of radio can teach us about our own communications revolution.

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Some people have decided to celebrate a centenary on December 12. They say it's "a hundred years of radio", but the event that happened in 1901 was no broadcast. It was something both phenomenal and feeble. The phenomenal part was the transmission of a human message, without physical carriage or wires, from one side of the Atlantic Ocean to the other, from Poldhu in Cornwall, to St John's in Newfoundland. It was the first trans-Atlantic wireless message, transmitted across some 3,200 kilometres of ocean.

The feeble part was the message: no music, just the letter "S", represented in morse code by three dots, repeated over and over again for hours. A bit like a dance party. The keying system in Cornwall couldn't send dashes, only dots, so the message had to be kept simple. It also helped that the wireless operator at St John's who managed to pick up the signal had received a cable telling him when to listen in and what to listen for. Even then, the signals drifted in and out of the static. The only written record of the phenomenal, feeble experience was noted in a diary: "Sigs at 12.30, 1.10 and 2.20." When the weather worsened, it became impossible to fly the balloons which had kept the original receiving antenna aloft. Feeble indeed.

When news of the first trans-Atlantic wireless message was released to the press four days later, there was much excitement. The share prices of cable companies, which had been carrying telegraph messages across the Atlantic for decades, dropped. But there was also considerable scepticism. It was, after all, just five years since observers had been dazzled by a wireless transmission of a mere one mile across Salisbury Plain. Now, someone was claiming to have managed 3,200 kilometres.

Scientists at the time thought electromagnetic radiation travelled in straight lines off to the heavens, so it didn't seem possible to transmit a signal over very long distance between two points on our spherical earth. If signals had got from Cornwall to Newfoundland on December 12, 1901, they must somehow have followed the curvature of the earth's surface. This, scientists thought, was fanciful. (Scientists later discovered that transmissions on the wavelengths used actually reflect up and down between the earth's surface and the ionosphere.)

But the sceptics had a problem too. The person who had organised the first trans-Atlantic wireless transmission may have been only 27 years old, but he had been springing surprises like this for six years. His name was Guglielmo Marconi. He lived in Bologna, the son of a rich Italian land-owner and an Irish mother, Annie Jameson – one of the Jameson's Whisky Jamesons.

Marconi didn't discover wireless transmission, but he was the key visionary who saw its commercial potential. He had an extraordinary mix of technical skill and innovation, energy, charisma, promotional flair and business toughness which he used to exploit the wireless medium to great commercial effect.

Having failed to interest the Italian government in his work, the-21-year-old Marconi accepted the advice of the Irish Jameson's and took his ideas to London. Britain was then the headquarters of the world's most powerful navy and mercantile fleet, a place Marconi thought might be able to make a good use of his technology to send wireless message – "Wires without Wires", as the lithographic artist Spy captioned his portrait for *Vanity Fair*.

Marconi's connections got him a good introduction to the head of the British Post Office, which gave him considerable support and did not prevent him developing a technology with obvious competitive implications for postal and telegraphic business. In 1897, Marconi formed the Wireless Signal and Telegraph Company in London. The company changed its name in 1903, apparently against Marconi's wishes, to Marconi's Wireless Telegraph Company, and much later to, simply, The Marconi Company.

Marconi shared the Noble prize for physics in 1909, lost an eye in a car accident in 1912, become a senator in Italy and was made Marchese - an Italian Marquis – in 1930. On his death in 1937, all wireless operators around the world marked his passing by ceasing transmission for two minutes. As the company's website now proclaims, for that brief time, the ether was as silent as it had been before him. One suspects our Word documents and Excel spreadsheets will not be treated with such reverence when Bill Gates moves on.

Marconi may have seen the possibilities of putting morse code into the ether, but it was a Canadian who first put music out there. On Christmas Eve 1906, Reginald Fessenden, working at one of Marconi's competitors, the Electric Signal Company, used valves to code speech and music into radio waves transmitted from a station in Massachusetts. Imagine the surprise of the wireless operators on ships in the Atlantic, trained to identify and decipher morse code signals, when they heard through there headphones a woman singing.

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Fessenden had done two crucial, related things which Marconi had not. First, he had coded, or "modulated", different kinds of what we now call "content" into radio frequency transmissions – speech and music, instead of morse code. Second, by doing so, he had created a medium which could be received without specialised skills. All you needed was language and a bit of rhythm.

Just as the telephone had enabled ordinary people to communicate electronically without the morse code skills needed for telegraphy, and thus provided what became a pervasive electronic communications tool, Fessenden had began to create another electronic medium that everyone could enjoy. It would come to be called "broadcasting", taking its name from the 18th-century practice of sowing seeds "by scattering widely rather than by placing [them] in drills or rows". It would also be known by the generic names of "radio" and "wireless", just as telegraph messages had become known as "wires".

The problem was that no-one much seemed interested in music over the wireless. Marconi saw ship-to-shore, ship-to-ship and international communications as the most likely commercial application of wireless transmission. Morse code was fine for these purposes. Tape printers provided a written record of the transmission and crispness of dots and dashes – a digital signalling system before its time – enabled clear reception even in noisy conditions. Most countries had public monopolies controlling their telegraphic and postal systems, and Marconi's wireless was often an unwelcome competitor.

During World War 1, wireless installations in many countries including Australia, the UK and the US, were taken over by the military. It was not until it ended, and manufacturing companies were looking for peace-time product lines to replace the munitions their factories had been pumping out, that the bigger, broader idea of transmitting music and speech by wireless to people's homes took hold.

Music and talk delivered to the home in real time turned out to have powerful appeal, but the new industry couldn't have taken shape without the technical and economic progress achieved in the war, especially in valve technologies. Before the war, wireless receivers were big, complicated, expensive things that shipping lines rented from Marconi and its competitors, complete with trained operators. After the war they started to become smaller, simpler and cheaper.

Although his company wasn't the first into it, Marconi eventually exploited this new use of wireless technology very effectively. In Australia, "music by wireless" was demonstrated in 1919, when a recording of the national anthem was played into a transmitter at the office of the Amalgamated Wireless Company of Australia, or AWA, in Clarence Street, Sydney, and received at the Royal Society's Elizabeth Street lecture room. AWA was the company into which Marconi's Australian interests had been pooled in 1913.

In Britain around the same time, Marconi's company tried transmitting music as a change from reciting the names of railway stations, the standard content for its wireless telephony test transmissions. According to Marconi company historian W J Baker, the company decided "[to press] into service a number of Company employees with musical talent". It received 214 appreciative reports from wireless experimenters and ship's operators as far as 2,300 kilometres away.

Still, the company continued to see business-to-business morse code traffic as the most lucrative line of commerce to pursue with its wireless technology. What really turned the company's views around on the prospects for entertainment transmissions was an idea sponsored by the *Daily Mail* – curiously, an "old media" institution with a lot to lose from the success of a new medium. The paper proposed a concert by Australian opera star Dame Nellie Melba, who came to Marconi's Chelmsford facility in June 1920. Shown the vast antenna from which, as the engineer explained, Melba's voice would be carried for hundreds of miles, Dame Nellie is reported to have replied: "Young man, if you think I am going to climb up there, you are greatly mistaken."

She sang the national anthem and arias from Puccini's *La Bohème*. Congratulatory letters were sent from as fas away as Paris, Persia and Newfoundland. It seemed likely there might be an audience for this kind of thing. The issue was how to pay for it.

The formative years of radio broadcasting provide a fascinating example of industry and societies confronting a new electronic communications capability without any clear idea of how it might be used or how a business might be constructed from it. The era provides useful parallels with the 1990s and early 21st century, where the media industry and societies are again grappling with interesting but highly uncertain technological capabilities, such as the internet and digital broadcasting. Anyone who followed *Wired* magazine from 1995-2000, as it proclaimed there ever-changing fashions in internet business models, would know exactly what it felt like to be part of radio in the 1920s.

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In the US, where until 1927 the federal government had limited legislative power to control the use of radio frequencies, broadcast radio found its "business model" through the trials, errors and successes of a fairly open, competitive market. Manufacturing companies like Westinghouse saw potential profits in the sale of wireless receiving sets, and began producing regular programs. The idea was that those who bought them would have something to listen-in to other than commercial morse code traffic.

Earning revenue from advertising seemed a most unlikely proposition. Why would people want to have their music and speech interrupted by sales pitches? Perhaps people would have to pay directly, through some kind of subscription, to receive the service, if it were technically possible to exclude non-subscribers from receiving and decoding the signals.

An article from the June 1922 edition of *Scientific American* captures the high degree of uncertainty about the new medium: "Broadcasting is a new art. It is little more than a year old, and like any young art it is full of that rare interest which must exist in any art until it has simmered down to an established basis."

The magazine explained a practice in the early history of broadcast stations, when, for a period of three minutes every 15 minutes, all stations had to stand-by to listen for distress signals from ships at sea. As for the business model, *Scientific American* thought broadcasting, in its 1922 form was "truly anomalous": "Here are over one-hundred stations providing speeches, news, music and so on for hundreds of thousands of listeners, yet deriving no direct financial returns. Granted, these same broadcasting organisations are for the large part engaged in the manufacture of radio apparatus and are reaping an astounding harvest of business, the fact remains that there are many other radio manufacturers harvesting just as rich a crop without spending a single cent or devoting a single moment to the sowing of that radio crop. It is highly unfair, to be sure …"

"Obviously, such a business is not founded on logic. While the radio boom persists, a few companies can well afford to maintain the radio-phone broadcasting stations; but sooner or later other arrangements will have to be made. Whether a charge will be necessary for broadcasting reception, or whether a charge will be made for the privilege of speaking or singing via radio, the author does not profess to know or even dare to guess. Still, the present situation is constructed on unstable lines and must sooner or later give way to something more substantial."

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Something more substantial did evolve, but it varied in different countries. In the US, the very much more substantial something was advertising. The early impression that audiences would not tolerate selling messages inserted between programs proved, well, both unfounded and rather well-founded.

In the UK, the early business model also gave way, but to a different end: a monopoly. This was an approach with which Marconi was very comfortable. Initially, from 1922, it was a private monopoly, the British Broadcasting Company. Shareholdings in the company were open to any wireless manufacturer, so long as they were British. Marconi's Wireless Telegraph Company of course qualified on this score, beating Rupert Muroch by many decades in skilfully managing to be a favoured local in almost every corner of the earth. The company also capped dividends at 7.5 per cent of capital, emphasising the very special, public nature of its broadcasting enterprise.

However, its first managing director, John Reith, later Sir John and later still Lord Reith, become a strong advocate of the private monopoly company becoming a public monopoly corporation, which it did in 1927. It has remained a public corporation, although it has had competition since the introduction of commercial TV in 1955. It accepted no advertising on its radio service and Britain didn't hear a British radio commercial until the 1970s, when private radio was introduced.

In Australia, a still different business model was tried – subscription radio. Listeners were to subscribe to individual stations, buying sets "sealed" to receive only the transmissions from the stations they had subscribed to. That system lasted about a year. In its place, a system of open broadcasting was established, where all sets could receive transmissions from all stations. Two categories of stations were created, A-class and B-class, the former receiving a share of the government-imposed listener licence fees, the latter left to raise their own resources. Just five years later, programming on the A-class stations was contracted out to a private company, the Australian Broadcasting Company, for about three years.

When that contract expired in mid-1932, the A-class stations, which included 4QG and 3LO, were subsumed into the newly established Australian Broadcasting Commission. With the B-class stations attracting increasing revenue from advertising, Australia had, by the 1930s, a "dual system" incorporating both

Britain's public broadcaster and America's commercial sector. Although the publicly funded national sector was initially the dominant sector, the revenues obtained from advertising by the commercial sector grew quickly, and the commercial sector came to dominate Australian radio, and particularly TV, broadcasting. The initial policy idea of a publicly funded broadcaster providing the expensive national service, with commercially funded broadcasters providing cheap local services was turned completely on its head - we now rely much more on the national broadcaster for expensive localism, while networked commercial broadcasters provide cost-efficient national services.

The controllers of radio stations in the 1920s give an indication of just how differently the business was conceived at the time. The department store Farmer and Company operated the biggest Sydney station, 2FC (now the Radio National station), and was a major shareholder in Melbourne's 3LO (now the local metro station). It secured exclusive rights to content for the station in NSW through agreements with JC Williamson (whose performances and theatres were used for live broadcasts), the Evening News, Reuters and Australian Associates Press (news), Dalgety and Co (stock and market reports) and music publishers Paling's (music), according to Mick Counihan.

The business model was a kind of "portal", with different content streams being provided by different independent suppliers, all in the service of the bottom line of a big retailer. Farmer's established separate accounts for the station from 1926. JC Williamson was also a major shareholder in 3LO and supplied most of its staff. 3LO's other shareholders included the Herald and Weekly Times, which supplied the stations news from the Melbourne *Herald*, and another department store, Buckley and Nunn. The store got publicity from programs like "Buckley and Nunn fashion talks" and, in return, paid the stations a third of the profits it earned from selling wireless equipment.

Queensland's A-class station, 4QG (now Brisbane's Radio Nation station), was set up by the premier, EG "Red Ted" Theodore, under the state Department of Agriculture, to provide rural communities with entertainment and market reports. 4QG also established a B-class station as part of the state government's plans for "a single, state-owned utilitarian broadcasting network". It had the best transmission facility in the country. Some Victorian country listeners got better reception from 4QG than 3LO and listeners in Alaska, Japan and Canada reported receiving a crisp signal. Programming, according to Rod Benson, included "news,

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market reports, farmers' sessions, lectures, religious broadcasts and women's sessions combined with stunts, children's programs, sport and music". The main goals of the government and station management were "information and education", although many listeners said they "preferred to be entertained". The idea foundered when the money, in the Depression, and the political will, after Theodore, disappeared. The station was acquired by the federal Postmaster-General's Department in 1930 and then rolled into the ABC in 1932. Theodore went on to set up the *Women's Weekly* with Frank Packer.

Sydney's 2EU (Electrical Utilities), which later changed its call sign to the more easily spoken 2UE, was typical of several stations established primarily to encourage wireless equipment sales. Larger ambitions were held by the NSW Trades and Labour Council, which established 2KY to counter Sydney's anti-Labor, anti-Jack Lang press, and the Theosophists, who established 2GB. The original licensee of 3DB was the Druleigh Business College – the station was sold to the Herald and Weekly times in 1929.

Radio began as a promotional tool for existing organisations but became a self-standing medium and industry. By contrast, over the year-and-a-half since the "tech wreck" which began in April 2000, many of the self-standing dot com businesses established during the internet boom from 1995 have been drawn back into the pre-existing organisations which established them. Although it is still relatively early days in the application of digital technologies to many economic and social activities, the internet and the world wide web are, for now, providing most organisations with new tools, rather than wholly new businesses.

We can take a few lessons from this early experience with "radio". First, however remarkable was the idea of wireless communication and Marconi's implementation of it one hundred years ago, and however obvious its commercial application now looks in retrospect, it was at the time an extraordinary gamble. The scheme for the first trans-Atlantic transmission in December 1901, writes W J Baker, cost Marconi's company £50,000 – the company had been established four years earlier with total capital of only £100,000. The company struggled for years to make serious sales.

Second, it is important to understand how many discrete technical innovations were necessary to turn Marconi's experiments into saleable goods capable of delivering saleable services. One apparently simple discovery was that signals sent from an elevated transmitter went further than those from one close to the ground – self-evident, we think now, but Marconi had to discover it, by trial and error. Tuning systems allowed transmission to be sent and received on different frequencies and greatly increased the number of messages which could be sent simultaneously – again, self-evident now, but in the early days they were thankful just to be able to generate a signal.

A hundred years on, it can look as if there was just wireless, in the 1890s, then broadcasting in the 1920s, then television in the 1950s in Australia, then colour television in the 1970s, then digital television in the late 1990s and early 21st century – technology changing in big leaps decades apart. In fact, up close, it looks much more like a dizzying, almost daily release of new ideas, approaches, gadgets adding up to constant change in technical capabilities, costs and potential uses. A perpetual communications revolutions of the kind we tend to think we invented at the end of the 20th century.

Third, however stable broadcasting's business model looks in retrospect, it was, particularly in its earliest years, highly unclear whether there was a durable business in it at all. Some ways of using the technology worked, others didn't. A lot of trials, a lot of errors, constant change. Ours is not this first generation to be struggling to work out how to make a business out of even the most exciting aspects of new technologies. The most valuable and interesting opportunities may turn up in very surprising places.

Fourth, it is useful to remember the critical element that distinguished radio broadcasting and the telephone from the telegraph – their ease of use. The telegraph never made it into people's homes. Its use of morse code meant it remained the province of specialists – Marconi men and women and post offices. By contrast, the simplicity of music and speech through radio and the telephone, the almost completely intuitive operation of these devices, got them to nearly 100 per cent of households.

This is potentially a critical element in assessing the appeal of different kinds of uses of new media. The sorts of things that have interested the first half of the population which has taken up online services in Australian homes might be quite different from the sorts of features needed to get the other half interested.

Although Marconi might recognise a lot of the themes in the challenges we face in 2001, one thing is very different. A hundred years on, Mr Marconi might not

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be quite so proud of his legacy, Marconi plc. Marconi plc is not precisely the company Guglielmo founded in 1897. His baby was acquired by English Electric in the 1940s, which in the late 1960s merged with the General Electric Company, GEC – no relation to the famous US company of the same name. By 1999, GEC had become primarily a military contractor. In that year, 98 years after Marconi's first trans-Atlantic message, at the height of the internet boom, GEC decided to turn itself back into a telecommunications company. It changed its name to Marconi plc, reclaiming its proud heritage from the former subsidiary it had absorbed. It then spent around $US8 billion buying telecommunications companies, as *The New York Times* said, "just in time for [the] collapse of technology-related businesses".

Marconi plc listed on the technology-heavy NASDAQ stock exchange in the US in mid-October 2000, opening trading at around $US25 a share. In early October 2001, it was trading under US50¢, although it was back around a dollar in late November. It dropped out of the London Stock Exchange's FTSE 100 index in September, along with several other big media, technology and telecommunications companies.

As the "war on terrorism" grinds on, Marconi plc might be wishing it had stayed in military contracting and Mr Marconi – Guglielmo, Senatore, Marchese – is probably up there in the ether wishing he'd kept his surname to himself.

Jock Given (jgiven@swin.edu.au) is a senior research fellow at Swinburne University's Institute for social research. This article is an edited version of a keynote address to the Music Council of Australia's national conference 'Music and radio: the last 100 years, the next 100 years'.

"Turning off the Television: Broadcasting's Uncertain Future" will be published by UNSW Press in 2002.

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CHAIRMAN'S REPORT

Investment Performance

Last year I warned in my report that the coming year would not be an easy one for international investment managers. The Manager was more specific in predicting a lot more bad news to come, and so it turned out to be. Over the year the MSCI, the most commonly accepted world investment index, was down 23.2%.

It is against this background that the net asset value of Platinum Capital grew by 10.79% last year. This figure is calculated after allowing for all tax liabilities, both realised and unrealised. On a pre-tax basis the growth was 13.93%.

The result, I think, is a solid one and, given the slide in world markets, reflects a very creditable performance by the Manager.

Importantly it adds to the long-term investment record of the company.

The annualised pre-tax return since inception (eight years) for Platinum Capital of 20.11% is now well ahead of that for the MSCI 9.98% 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 eight years since inception, Platinum Capital has increased a total of 333.45% in pre-tax value, over 219 percentage points ahead of the MSCI's increase of 114.09%.

The table below sets out the performance of Platinum Capital over the last eight years and compares these figures to the MSCI.

To achieve these results 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 eight years of 20.11% per annum is at the high end of what investors can reasonably expect from equity investment.

A good result going forward is more likely to resemble what was achieved last year than the average of the last eight years.

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 15 cents per share was paid in 2001. All dividends are fully franked.

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

Platinum Capital Limited – Pre-Tax NAV Return Versus MSCI Index (%)

	1 year	3 years (compound pa)	5 years (compound pa)	Since inception (8 years) (compound pa)	Since inception (cumulative)
PCL	13.93	30.06	23.42	20.11	333.45
MSCI	(23.16)	(3.66)	6.49	9.98	114.09

Outlook for 2002/2003

In his report the Manager states "there is simply too much faith in equities for this to be a fundamental bottom". In other words, the coming year will be difficult and investment managers will have to work very hard to earn their keep.

The current investment stance will be maintained and I am confident, in this uncertain environment, that this will give Shareholders the best chance of achieving a reasonable return.

Directors

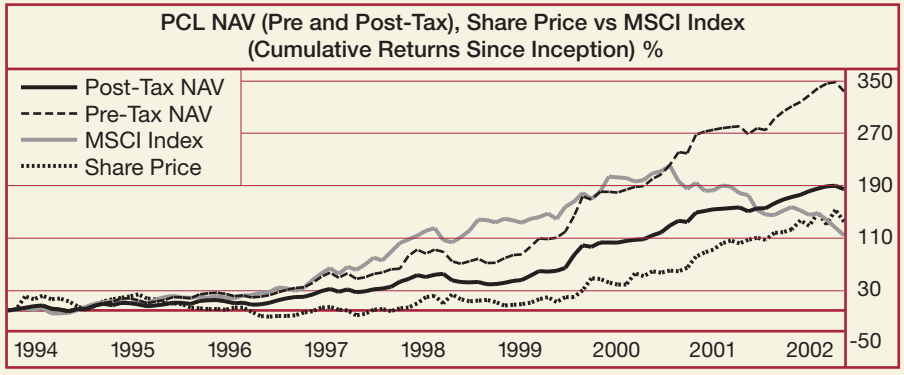
During the year Mr Graeme Galt joined the board of the company.

After eight years on the board I have decided to step down after the Annual General Meeting this year. Mr Galt has been elected by Directors to succeed me as Chairman.

I want to record my appreciation for the contribution of my board colleagues and my admiration and respect for the Manager. Shareholders are well served by their efforts.

Michael Darling
Chairman

INVESTMENT MANAGER'S REPORT



Performance

Confidence in the valuation of equities worldwide has been shaken by the revelation of major accounting irregularities primarily but not exclusively in the US. It is now feared that we have been living through a financial mania accompanied by systemic distortions involving very influential individuals and institutions which if not downright illegal have certainly served to mislead.

In terms of stock market sectors, information technology and telecoms were affected worst but there were no hiding places. By geography, the only bright spots producing positive returns were Korea and Peru. The Morgan Stanley World Index fell overall by 13.6% in the quarter to 30 June, by 16.9% over the first half of 2002 and by as much as 23.2% in the latest 12 months.

MSCI World Index – Industry Breakdown

Sectors	3 Months	1 Year
Information Technology	-29.3%	-43.4%
Telecommunications	-25.1%	-42.6%
Health Care	-17.1%	-21.0%
Consumer Discretionary	-14.8%	-26.3%
Industrials	-13.3%	-25.2%
Utilities	-10.2%	-26.7%
Financials	-9.3%	-20.2%
Energy	-8.3%	-10.0%
Consumer Staples	-4.8%	-1.9%
Materials	-3.6%	-4.1%

Source: MSCI

Platinum's portfolio did well for the year as a whole but lost momentum in the last quarter as the upward re-rating of smaller capitalisation shares came to an end and some of our holdings were marked down. Short sales played an important part in our overall returns. The composition of these has changed through time as we gradually migrated from technology names to financials and consumer dependent names as the year progressed. The quarterly reports hopefully kept you abreast of our activity throughout the year. In summary, the last three months saw the value of the Company's portfolio decline by 1.1%, while it rose by 5.5% over six months and increased by 13.9% pre-tax for the last 12 months. Readers may be interested to note that the Micropal survey of 601 managers of International equity funds records that they lost an average 27% over this last 12 months.

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

30 April 2002	31 May 2002	30 June 2002
179.42 cps	179.91 cps	176.65 cps

INVESTMENT MANAGER'S REPORT
CONTINUED

Disposition of Assets

Geographical Disposition of Platinum Assets

Region	June 2002	March 2002
Western Europe	40.3%	40.0%
Japan	18.0%	14.9%
Emerging Markets (incl. Korea)	14.3%	15.5%
North America	12.0%	13.4%
Australia	1.5%	1.3%
Cash	14.0%	14.9%
Shorts	28.0%	28.0%

At year end the Company's portfolio was very underweight in the US, overweight on western Europe and retained a supernormal holding of cash.

Breakdown of Platinum Portfolio by Industry

Categories	Examples of Stocks	June 2002	March 2002
Cyclicals/Manufacturers	RMC, Bayer, Linde, Océ	19%	23%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	13%	11%
Consumer Brands	Adidas Salomon, Lotte Confectionary	12%	9%
Financials	Deutsche Boerse, Alleanza	9%	9%
Technology/Hardware	Toshiba, Samsung, AMD	7%	11%
Software/Media	Mediaset, Nippon Broadcasting, Seoul Broadcasting	7%	7%
Medical	Draegerwerk, Merck KGaA, Novartis	7%	6%
Telecoms	NTT, Verizon, Ericsson	7%	6%
Gold and Other	Gold Fields, Newmont Mining	5%	3%

Recent selling has reduced our exposure to cyclical and technology stocks whereas our buys have mainly been of companies operating at the consumer end of the market.

Changes to the Portfolio in the Fourth Quarter

Most of our purchases took the form of additions to existing positions. Our eagerness to start accumulating new positions notably in EDS (IT outsourcing) and Ericsson cost us money as these companies sold off with the techs. Other significant additions were mainly Japanese companies: Takeda, Sky Perfect Communications, Credit Saison, Aiful and Denso.

With the exception of the last named, these are domestic plays largely unaffected by the movement of the yen. This provides balance to the export component of the portfolio and exposes the Company to what growth industries exist in the largely moribund Japanese economy. Takeda is the country's principal drug producer, with an interesting portfolio, and sold off in sympathy with its international peers. Trading on around 20 times earnings with 20% of this capitalisation in cash, it is close to its cheapest valuation ever.

Sky Perfect was IPO'd with all the fanfare of the internet boom and has subsequently fallen over 65%. This entity was one of several licence holders to broadcast digital TV via satellite but as time has passed it has merged with JskyB. Another competitor, DirectTV Japan, has terminated its service. Sky is now the sole communications satellite digital platform over Japan, aggregating some 180 channels, with nearly three million subscribers. By the nature of this business, its costs are front-end loaded which means that at the current net sign-on rate of around 40,000 per month, it will break even by year-end. This remains, however, an unattractive proposition to the many institutional investors in Japan who place major emphasis on immediate free cash flow. We believe this is the main suppressant on the share price as subscriber growth has been good, a competing analog station providing two movie channels is losing ground and in the next few months there will be the added attraction of a horse racing channel with on-line betting facilities. Should Sky eventually gain, say, six million subscribers, out of 46 million Japanese households, the shares will prove to be substantially undervalued.

Credit Saison and Aiful are vehicles to participate in the growing credit card market in Japan. Obstructing the acceptance of cards, as well as high merchant fees, are rigid social values, although these are now changing, particularly among those below 30.
Both companies have excellent growth records throughout this last 10 years of recession. Credit Saison is aiming to be the leading card processor in the country while Aiful will continue to develop its traditional short term lending business through the offering of credit cards. Both have very low balance sheet gearing, borrowings to equity being around five times, so as credit markets expand in Japan the potential for leverage, as witnessed in Korea, is enormous.

Lastly, Denso is one of the reminders of the distinctive virtues of Japanese companies. Its commitment to product excellence and innovation is partly revealed by its R&D budget of 9% of sales. It is targeting to reduce its costs by 30% by 2003 whilst remaining at the leading edge of auto electronic technology. Sales growth, while partly linked to Toyota's fortunes, is expected to benefit greatly from the adoption of electronics in autos. Denso is the leader in car navigation and will ship close to half a million sets this year. Even more importantly, the Company will benefit from the intensifying digitisation of cars, be it in pollution abatement or mobile communication and control. Best of all, its recently spun off competitors such as Visteon (from Ford) and Delphi (General Motors) are showing signs of capitulating to expediency in the face of investor short-termism!

On the sales side, we removed Coke, Kimberly-Clark, Lagardere, Tokyo Broadcasting, Sony and Zhejian Highway. The prices of these shares rose significantly as investors sought the sanctuary of defensive plays so they no longer offer good value.

On the short selling front, we have gradually migrated from the technology sector such as Intel and the chip making companies to financials and consumer sensitives such as Sears, and to the government sponsored enterprises, Freddie Mac and Fannie Mae.

Currency

Almost every currency appreciated against the US$ in this period. The latter is now seen as risky and, notwithstanding their problems, the Euro and even the Yen for a while, look more compelling. The Company was relatively well positioned having held to our long term preference for the A$ and the Europeans. At the end of June, 63% of assets were hedged into A$; 28% held in European currencies, with the rest mainly in Korean Won.

Commentary

A particular feature of recent developments in world stock markets has been their synchronisation. From the coverage given in the popular media, particularly in the US, one might think the more intense disturbances were confined to American corporations. In fact the excitement of the new communications mania, the internet, mobile phones, lap top computers etc, was a universal phenomenon. A Panglossian tide swept across America, Europe and Asia alike, submerging reasons with promises of step changes, new paradigms, and everything which went to make a brave new world. Management with large holdings of stock options and investors were affected alike, conservative elder statesman as well as teenage enthusiasts, not to mention the shadier elements, the speculators and creative accountants. The consequence has been stunning losses not just in Enron or Worldcom or "fairyfloss" companies in *neuer markts* or developing countries but in former staid giants such as France Telecom, down 73% in the past six months; Vivendi, down 61%; Marconi, 99%; Ericsson, 73%; Swiss Life, 71%; and Reuters, 62% to name just a few.

It is probably true that US companies deserve recognition as the premier performers in the contest for director self-enrichment and the most creative accounting, but they are not alone. Many great companies are now over-leveraged and operating in markets that are over-supplied. They have lost their operating flexibility and in some instances have surrendered formerly impregnable positions to previously weak adversaries. They are much riskier entities and some will not survive in their present form. Auditor and public scrutiny will reach fever pitch and new legislation will follow. This is leading to a **general de-rating of equities** in all major markets.

The second factor weighing heavily on equities is **currency imbalances**. Like the great empires of the past, the United States now finds itself carrying an imperial burden. Big government is back and the weight on the exchequer is growing. History leads us to believe that the currency is entering a weak phase and the cost of debt, as reflected in long interest rates, will trend higher.

Over the last few years we have held the view that the unlocking of the potential of the vast labour pools of Asia, in particular China, would suppress the price of traded manufactured goods and thereby cap an important element of inflation. Further aiding this tendency is the falling price of communications which has promoted the development of services which can be performed remotely at low cost, for instance call-centres or software development in India. This would be fine in an environment of stable exchange rates but if the US dollar cheapens it may have a **deflationary effect** on world aggregate demand and prices abroad as US producers are able to win back some export markets while at home US consumers feel the bite of less cheap imports.

We nonetheless take a positive view about **Asian growth prospects**, though expecting a lower trajectory than hitherto. The bigger emerging countries of the region have seen their net external indebtedness decline since the '98 crises and bank loan-to-advance ratios have improved markedly. Company balance sheets are much improved and inter-regional trade is flourishing. To be sure, weak currencies have helped spur exports but an important new development is emerging. Extensive use of consumer credit has changed the balance between domestic growth and that generated by external demand. In Korea for example, spending on capital formation has dwindled from over 35% of GDP in the early 1990s to around 28%, and in its place the consumer's share of the economy has been bolstered to over 64%, from 55% formerly. A strong rise in consumer credit and real wages have driven this but because of international competitiveness and improved solvency trade is in surplus and net foreign assets have been rising.

Interesting questions relate to **commodity prices**. Having now retested the lows last seen in the 1930s in real terms do they skid further or will some growth in the West and improving living standards of Asia result in a gradual shift upwards in line with marginal incremental demand? In nominal terms the emerging economies of Asia and India seem too small to have an impact, representing about 9% of world output. However, if one looks at output on the basis of **purchasing power parity** (PPP) to take account of their unduly cheap currencies and to give weight to the physical content of their output, one can draw a different conclusion. Far from being insignificant, a study by Morgan Stanley suggests that China and India on a PPP basis, together account for 17% of world GDP, representing more than twice that of Japan at 7% and just ahead of Euroland's 16%[1]. Should these economies continue to grow at twice or more the rate of developed economies, one could make a case that the real prices of commodities have bottomed. This would partially offset deflationary influences elsewhere. Equally, it has important implications for commodity producing companies and commodity producing nations like Australia.

Latin America is a different story. The main problem stems from weak institutions. Instead of using the period of strong investment flows from abroad to reform its fiscal imbalances, Argentina squandered the opportunity. The strong currency, pegged to the dollar, was the final straw as foreign flows faltered and investors realised they would be seeing very little of their $150 billion back. Argentina's economic future looks very bleak.

Brazil has been more disciplined and is running government surpluses, before interest payments, of over 3.5% of GDP. However, domestic government debt is very large at 269 billion Reals and interest payments are absorbing around 8.5% of GNP. Worst still, these government obligations are some 90% inflation or exchange-linked and have a maturity of just 35 months on average. Given the uncertainty of the upcoming election, and with the lead being held by Lula da Silva, a move back to the radical left, a weakening currency and enormous government debt leaves the country's future on a knife edge. This is exacerbated by a small trade component relative to this large economy. The government has little room to manoeuvre.

1.Sceptics may be surprised to know that China produced 149 million tonnes of steel in 2001 and 595 million tonnes of cement. By way of contrast, the USA produced 90 million tonnes of steel and 91 million tonnes of cement, while India produced 27 million tonnes of steel and 100 million tonnes of cement.

Japan remains vulnerable to unstable currencies. It was starting to see the benefits of an export surge due to the weak yen but this trend has now halted. We have long held the view that the yen is the safety valve in that dysfunctional economy. On a recent trip we were dismayed at the seeming complacency among large employers. The giant electrical companies are a classic example. The cost of tenaciously standing by their worker obligations is putting their technological standing at risk. This year, for example, the combined spend on IC chip facilities by the big five Japanese semi-conductor companies will be US$2.7 billion which is about the same as last year and is less than that of their nemesis in Korea, Samsung, although their sales are more than three times as large as Samsung's. As pure manufacturers, the Japanese are still very competitive but the overmanning of support staff is a major problem. Even so, there are many facets to this enormous economy which allows stock pickers to find inexpensive investments.

Conclusion

Investors can expect the media to give plenty of attention to whether Wall Street has reached a bottom. We think this will prove premature speculation, an example of the false optimism that can be expected after an 18 year bull market (1982-2000).

Our medium term caution is based on the amount of consumption that has been brought forward, on the excessive use of debt by companies and individuals, on the still stifled criticism directed at key institutions and on the reducing willingness of investors to pay high prices for true earnings (valuations are still too high). Money is still hiding in yesterday's winners, new issuance hovers in the wings and as money is withdrawn from equity mutual funds even wonderful companies will be revalued downwards. **There is simply still too much faith in equities for this to be a fundamental bottom!** The pendulum of investor sentiment has still not yet swung fully from greed to fear.

Such a scenario is no fun for fund managers because of the likely volatility. Particularly with our short positions there are bound to be times when we will close positions too soon on a trading view and thereby forego opportunities. Equally our longs will periodically fail because of growth and competition proving worse than we anticipated or by our misjudging what is priced into expectations. Hopefully by scouring the world and being prepared to avoid the popular shares we can give investors some protection. In the short term there **could be a decent bounce** reflecting a moderation of the present high level of investor pessimism.

Kerr Neilson
Managing Director

INVESTMENT MANAGER'S REPORT
CONTINUED

"Nasdaq Accounting Definitions"

In truth it is no laughing matter but, following last quarter's comments on accounting nonsense, we were taken by the following "Nasdaq Accounting Definitions" from the internet:

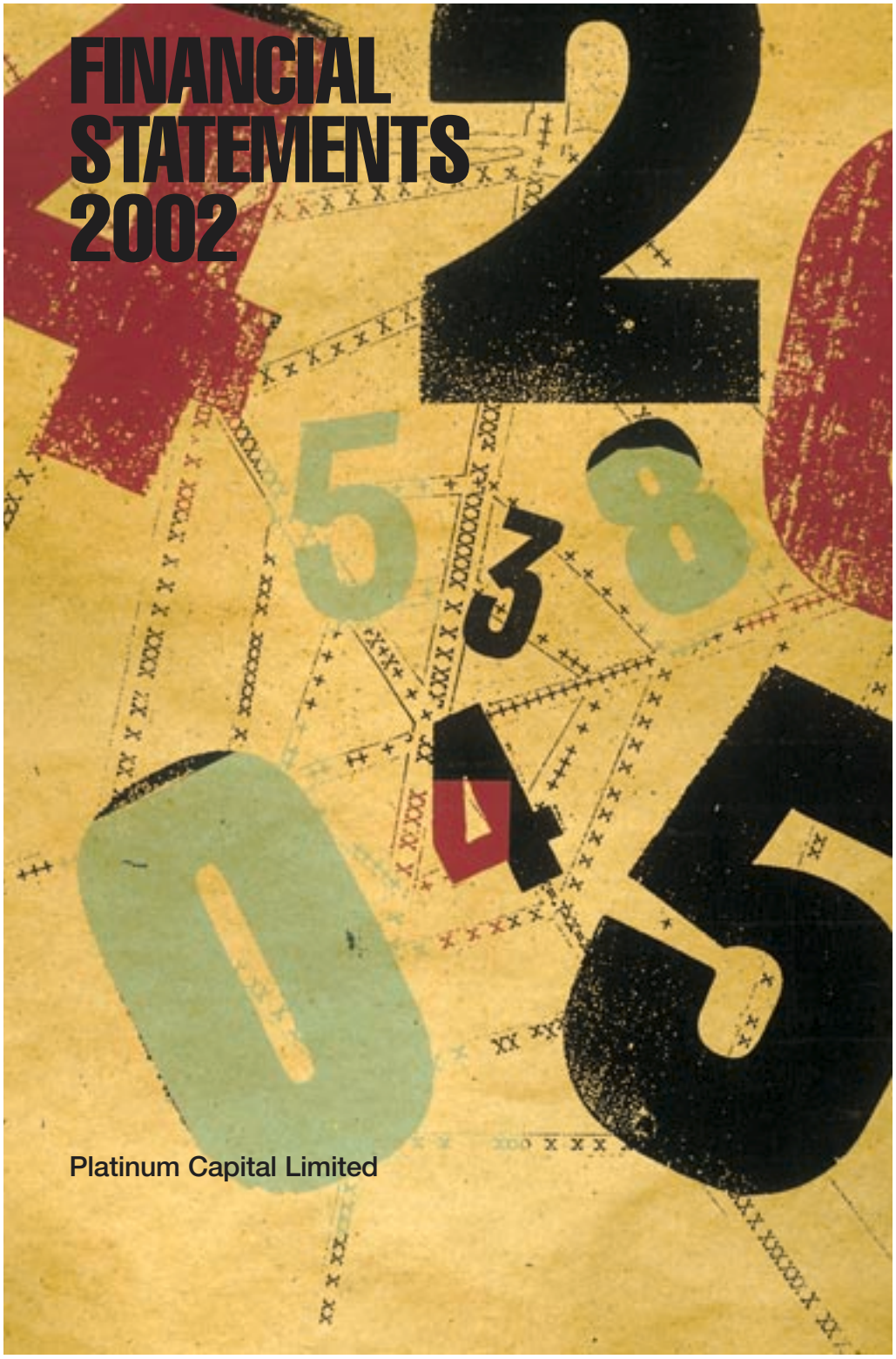
EBITDA – Earnings Before I Tricked the Dumb Auditor

EBIT – Earnings Before Irregularities and Tampering

CEO – Chief Embezzlement Officer

CFO – Corporate Fraud Officer

EPS – Eventual Prison Sentence



SHAREHOLDER INFORMATION

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 2002.

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

Distribution of Securities

	Class of Equity Security
(i) Distribution schedule of holdings	Ordinary
1 – 1000	833
1,001 – 5,000	4,415
5,001 – 10,000	2,562
10,001 – 100,000	2,388
100,001 and over	64
Total number of holders	10,262
(ii) Number of holders of less than a marketable parcel	233
(iii) Percentage held by the 20 largest holders	13.46%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of equity securities as at 31 July 2002 are listed below:

	Number of Shares	%
RBC Global Services Australia	3,380,810	3.05
Questor Financial Services Limited	2,504,995	2.26
Platinum Asset Management Limited	1,131,074	1.02
Cox Bros Coffs Harbour Pty Limited	1,109,653	1.00
Questor Financial Services Limited	737,088	0.67
National Nominees Limited	610,613	0.55
Austair Pilots MBF Nominee Co Pty Ltd	500,000	0.45
Nizin Holdings Pty Limited	499,061	0.45
UBS Warburg Private Clients Nominees Pty Limited	437,222	0.39
Feboco Investments Pty Limited	423,110	0.38
Mr Greg Maughan	412,974	0.37
Dr Russell Kay Hancock	409,915	0.37
Frank Hadley Pty Ltd	406,364	0.37
Nizin Holdings Pty Limited	392,147	0.35
Tower Trust Limited	391,665	0.35
J P Morgan Nominees Australia Limited	385,852	0.35
Frank Hadley Pty Ltd	354,006	0.32
Veredi Pty Limited	323,047	0.29
Queens Hill Pty Limited	281,515	0.25
Transport Accident Commission	239,874	0.22

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.

Financial Calendar

Annual General Meeting	24 October 2002
Ordinary Shares trade Ex-Dividend	28 October 2002
Record (books close) date for Final dividend	1 November 2002
Final dividend paid	8 November 2002

These dates are indicative and may be changed.

SHAREHOLDER INFORMATION
CONTINUED

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 – 1,612 Total brokerage paid – $674,688

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.

DIRECTORS' REPORT

In respect of the year ended 30 June 2002 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)

Graeme William Galt was appointed a Non-Executive Director on 25 July 2002 and continues in office at the date of this report.

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 $19,916,000 (2001: $45,924,000) after income tax expense of $12,231,000 (2001: $24,039,000).

Dividends

In respect of the year ended 30 June 2002, the Directors recommend the payment of a 10 cents per share ($11,080,813) fully franked final dividend payable to Shareholders recorded on the Share Register as at 28 October 2002, the Ex-Dividend date.

A fully franked interim dividend of 5 cents per share ($5,493,000) was paid on 28 February 2002.

A fully franked final dividend of 10 cents per share ($10,802,000) for the year ended 30 June 2001 was paid on 9 November 2001.

Review of Operations

Operating Results

The operating profit before tax was $32,147,000 (2001: $69,963,000) and $19,916,000 (2001: $45,924,000) after tax.

Taxation

Income tax expense for the year was $12,231,000 (2001:$24,039,000).

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 the End of the Financial Year

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 is not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory Law.

Directors' Emoluments

The Executive Directors (WKS Neilson, AM Clifford & 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 $
PW Clarke	29,167	2,333	31,500
MG Darling	38,750	3,100	41,850
	67,917	5,433	73,350

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 this report.

Information on Directors

Michael G Darling BA Law (Oxon), MBA (Harvard)
Chairman (Age 56)

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 and Deputy Chairman of The Centre for Independent Studies Limited. He is a former Director of the Australian Stock Exchange (1986-1987).

Peter W Clarke BSc(Econ), ASIP
Non-Executive Director (Age 66)

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.

Graeme W Galt MBA, BCom, FAICD
Non-Executive Director (Age 62)

Mr Galt has extensive experience in senior positions across a wide range of industries and markets.

He has been a Director of and adviser to DHL International (Aust) Pty Limited since 1991 and is a Director of Asian Express Airlines Pty Limited.

He is active in community, cultural and sporting activities. He is a Director of Bangarra Dance Theatre.

From 1992 to 1995 Mr Galt was Chairman of Korn Ferry International, Australia and a Visiting Professor of Management at the University of Wollongong.

Kerr Neilson BCom, ASIP
Managing Director (Age 52)

Relevant interest in 1,516,924 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 36)

Relevant interest in 1,305,788 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 44)

Relevant interest in 1,291,712 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 Jolliffe Cork, London.

Directors' Meetings

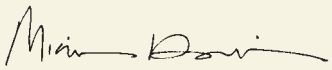
The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2002 and attended by each Director.

	Board Meetings	
	Held while a Director	Attended
MG Darling	6	6
PW Clarke	6	5
GW Galt (appointed 25 July 2002)	–	–
WK Neilson	6	6
AM Clifford	6	6
RM Halstead	6	6

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
9 August 2002

CORPORATE GOVERNANCE

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 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 $73,000 per annum.

Ethical Standards

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

Buying and Selling of the Company Shares

The purchase and sale of the Company's shares by Directors, Officers and employees are only permitted in the one week (i.e. five business days) subsequent to the announcement of the monthly net asset value appearing in the Australian Financial Review.

Continuous Disclosure

The Company Secretary has been nominated as the person responsible for the communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and over-seeing and co-ordinating information disclosure to the ASX, shareholders, the media and the public.

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.

STATEMENT OF FINANCIAL PERFORMANCE
YEAR ENDED 30 JUNE 2002

	Notes	2002 $'000	2001 $'000
Revenue from Ordinary Activities			
Dividends		**3,577**	2,684
Interest		**654**	1,912
Net realised gains/(losses) on sale of equities/derivatives		**40,060**	75,959
Net realised gains/(losses) on currency hedging transactions		**11,104**	(2,950)
Net unrealised gains/(losses) on revaluation of monetary items		**(980)**	(300)
Reversal of prior periods' provision for permanent diminution in the value of investments		**2,446**	613
Provision for permanent diminution in the value of investments		**(12,353)**	(2,446)
Net realised gains/(losses) on overseas bank accounts		**(1,902)**	2,911
Total Revenue from Ordinary Activities		**42,606**	78,383
Expenses			
Management fees		**3,000**	2,986
Performance fees		**6,414**	4,038
Custodian fees		**210**	185
Share Registry		**200**	131
Directors' fees		**73**	49
Auditor's remuneration			
– Auditing and review ($43,500, 2001: $31,000)		**44**	31
– Taxation services		**19**	30
Goods and Services Tax		**(212)**	212
Withholding tax on foreign dividends		**407**	441
Other expenses		**304**	317
Total Expenses		**10,459**	8,420
Profit/(loss) from ordinary activities before income tax		**32,147**	69,963
Income tax expense	2	**12,231**	24,039
Profit/(loss) from ordinary activities after income tax	8	**19,916**	45,924
Earnings Per Share (cents per share)	7	**18.24**	43.19

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2002

	Notes	2002 $'000	2001 $'000
Investments	1(c), 3	**194,383**	179,252
Current Assets			
Cash at bank	9(a)	**212**	122
Receivables	4	**2,279**	5,508
Future income tax benefit		**470**	170
Total Current Assets		**2,961**	5,800
Total Assets		**197,344**	185,052
Current Liabilities			
Payables	5	**7,972**	5,197
Dividend	14	**11,081**	10,802
Current tax		**2,561**	2,573
Deferred tax		**789**	432
Total Current Liabilities		**22,403**	19,004
Net Assets		**174,941**	166,048
Equity			
Contributed equity	6	**115,441**	109,890
Retained profits	8	**59,500**	56,158
Total Equity		**174,941**	166,048

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

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2002

	Notes	2002 $'000 Inflows (Outflows)	2001 $'000 Inflows (Outflows)
Cash Flows from Operating Activities			
Dividends received		**3,618**	2,677
Interest received		**637**	1,946
Cost of purchases of investments and currencies		**(138,426)**	(168,558)
Proceeds from sale of investments and currencies		**174,655**	200,503
Management and performance fees paid		**(7,108)**	(2,820)
Other expenses		**(1,084)**	(1,273)
Income tax paid		**(12,185)**	(33,818)
Net Cash Inflow/(Outflow) from Operating Activities	9(b)	**20,107**	(1,343)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**5,551**	4,371
Dividends paid		**(16,242)**	(13,759)
Net Cash Outflow from Financing Activities		**(10,691)**	(9,388)
Net Increase/(decrease) in cash held		**9,416**	(10,731)
Cash held at the beginning of the financial year		**17,275**	27,365
Effects of exchange rate changes on cash		**52**	641
Cash Held at the End of the Financial Year	9(a)	**26,743**	17,275

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2002

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.

(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 uncollectable 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	**2002 $'000**	2001 $'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 30% (2001: 34%)	**9,644**	23,787
Tax effect on permanent differences which:		
Reduce Tax Payable		
– Allowable credits	**(381)**	(328)
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in the company tax rate to 30% (2001: 34%)	**–**	38
Future income tax benefit not recognised	**2,972**	550
Under/(over) provision of prior period tax	**(4)**	(8)
	12,231	24,039
The income tax expense attributable to operating profit/(loss) comprises:		
Current income tax provision	**12,178**	23,748
Deferred income tax provision	**357**	388
Future income tax benefit	**(300)**	(89)
Under/(over) provision of prior period tax	**(4)**	(8)
	12,231	24,039

Future Income Tax Benefit

Potential future income tax benefits of $3,705,900 (2001: $733,800) arising from permanent diminution in the value of investments of $12,353,000 (2001: $2,446,000) 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 may be obtained if the investments are sold.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

3. Investments	2002 $'000 Net Fair Value	2002 $'000 Cost/Carrying Value	2001 $'000 Net Fair Value	2001 $'000 Cost/Carrying Value
Listed and non-listed securities	**175,595**	**168,247**	175,768	161,489
Currency hedges	**(395)**	**(395)**	610	610
Cash on deposit note 9(a)	**26,531**	**26,531**	17,153	17,153
Total Investment Portfolio note 11	**201,731**	**194,383**	193,531	179,252

4. Receivables	2002 $'000	2001 $'000
Current		
Proceeds on sale of investments	**2,111**	5,000
Accrued dividends	**87**	128
Accrued interest	**19**	2
Prepayments	**50**	15
Goods and Services Tax	**12**	363
	2,279	5,508

Proceeds on sale of investments are usually received between two and five days after trade date.

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

The net fair value of receivables approximates their carrying value.

Denomination of current receivables in foreign currencies:

Indian rupee	**–**	14
Hong Kong dollar	**25**	–
Euro dollar	**36**	92
Indonesian rupiah	**–**	2
Japanese yen	**1,206**	3,929
US dollar	**938**	1,091
	2,205	5,128

5. Payables	2002 $'000	2001 $'000
Current		
Payables on purchase of investments	**937**	166
Trade creditors (unsecured)	**6,879**	4,928
Unclaimed dividends payable to shareholders	**156**	103
	7,972	5,197

Payables on purchase of investments are usually paid between two and five days after trade date.

Trade creditors are unsecured and payable between seven and thirty days after being incurred.

The net fair value of payables approximates their carrying value.

These current payables are non-interest bearing.

Denomination of current payables in foreign currencies:

US dollar	**381**	68
Swedish kroner	**320**	–
Japanese yen	**236**	–
Indian rupee	**–**	98
	937	166

6. Contributed Equity		2002 Quantity	2002 $'000	2001 Quantity	2001 $'000
Opening balance		**108,014,141**	**109,890**	105,117,419	105,519
Dividend reinvestment plan	14-Nov-00	**–**	**–**	1,809,018	2,587
Dividend reinvestment plan	23-Feb-01	**–**	**–**	1,087,704	1,784
Dividend reinvestment plan	9-Nov-01	**1,860,756**	**3,610**	–	–
Dividend reinvestment plan	28-Feb-02	**933,235**	**1,941**	–	–
Closing Balance		**110,808,132**	**115,441**	108,014,141	109,890

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

7. Earnings Per Share	Notes	2002	2001
Basic earnings per share – cents per share		**18.24**	43.19
Diluted earnings per share – cents per share		**18.24**	43.19
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share		**109,217,968**	106,337,904

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		$'000	$'000
Retained earnings at the beginning of the financial year		**56,158**	26,382
Net profit attributable to members		**19,916**	45,924
Total available for appropriation		**76,074**	72,306
Dividends	14	**16,574**	16,148
Retained earnings at the end of the financial year		**59,500**	56,158

9. Notes to the Statement of Cash Flows	2002 $'000	2001 $'000
(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:		
Cash at bank*	**212**	122
Cash on deposit** note 3	**26,531**	17,153
	26,743	17,275

* Includes $156,000 (2001: $103,000) held in respect of unclaimed dividends on behalf of Shareholders or the Office of State Revenue.

** Includes $14,300,000 (2001: $15,210,000) 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 0.50% to 4.00% (2001: 2.25% to 4.00%).

International and Australian deposits at call bear floating interest rates in the range of 1.00% to 4.60% (2001: 0.50% to 4.50%).

International deposits and margin calls at derivative exchanges bear floating interest rates in the range of 1.00% to 4.60% (2001: 0.50% to 4.50%).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

9. Notes to the Statement of Cash Flows continued	2002 $'000	2001 $'000
(b) Reconciliation of Net Cash from Operating Activities to Operating Profit/(Loss) after Income Tax		
Operating profit/(loss) after income tax	**19,916**	45,924
Decrease/(increase) in investment securities and currency hedges	**(5,753)**	(36,393)
(Increase)/decrease in cash due to exchange rate movements	**(52)**	(641)
Decrease/(increase) in settlements receivable	**2,889**	(4,806)
Decrease/(increase) in dividends receivable	**41**	(8)
Decrease/(increase) in interest receivable	**(17)**	34
Decrease/(increase) in GST receivable	**351**	(363)
Decrease/(increase) in prepayments	**(35)**	2
(Decrease)/increase in accrued expenses	**1,951**	4,526
(Decrease)/increase in settlements payable	**771**	161
(Decrease)/increase in income tax payable	**(12)**	(10,078)
(Increase)/decrease in future income tax benefit	**(300)**	(89)
Increase/(decrease) in deferred income tax	**357**	388
Net Cash from Operating Activities	**20,107**	(1,343)

10. Statement of Net Asset Value

Taking Investments at Market Value* and Providing for Realised and Unrealised Taxes		
Net Asset Value per Statement of Financial Position (Historical cost basis)	**174,941**	166,048
Add:		
Revaluation of investments	**7,348**	14,279
Proposed dividends	**11,081**	10,802
Future income tax on revaluation of investments	**2,380**	–
Less:		
Deferred income tax on revaluation of investments	**–**	(3,424)
Net Asset Value	**195,750**	187,705
Net Asset Value – cents per share	**176.65**	173.78

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

11. Investment Portfolio	Quantity	Net Fair Value $'000
JAPAN		
Aiful	7,100	826
Alpine Electronics	107,000	2,169
Asahi Glass	77,000	874
Citizen Watch	91,000	1,086
Credit Saison	85,400	3,594
Denso	142,000	3,934
FDK	37,000	153
Fujirebio	71,000	1,210
Furukawa Electric	153,000	1,039
Matsushita Denki Sangyo	143,000	3,459
NGK Spark Plug	74,000	995
Nippon Broadcasting System	40,000	2,604
Nippon Television	2,040	807
Noritake	219,000	1,474
NTT	554	4,040
Sky Perfect Communications	1,256	2,192
Takeda Chemical	13,000	1,012
TDK	21,000	1,758
Tenma	39,000	783
Toshiba	336,000	2,426
		36,435
OTHER ASIA		
Hong Kong		
Beijing Capital International Airport – H	3,123,000	1,326
Beijing Enterprise Holdings	40,000	81
Shanghai Industrial Holdings	141,000	482
Travelsky Technology – H	701,000	851
		2,740

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
India		
HDFC Bank	57,146	417
HDFC Bank – ADR	22,400	512
Housing Development Finance	30,154	711
Reliance Industries	50,302	491
Videsh Sanchar Nigam – ADR	75,775	818
		2,949
Indonesia		
Lippo Life E – Net	5,907,000	72
Unilever Indonesia	150,000	630
		702
Korea		
Kangwon Land	10,656	2,520
KT	27,760	1,976
LG Chemicals	32,292	2,070
Lotte Confectionery	6,000	5,773
Samsung	124,960	1,326
Samsung Electronics	3,985	1,932
Seoul Broadcasting	25,330	1,584
SK	37,210	1,134
SK Telecom	2,660	1,056
		19,371
TOTAL OTHER ASIA		25,762
AUSTRALIA		
Australia and New Zealand Banking Group – Sold Short	(31,000)	(3)
Commonwealth Bank of Australia – Sold Short	(23,900)	13
Lihir Gold	780,000	1,043
MIM Holdings	782,300	1,014
National Australia Bank – Sold Short	(24,700)	(11)
Origin Energy	299,100	1,006
Westpac Banking – Sold Short	(30,700)	(3)
		3,059

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
EUROPE – EURO		
France		
Euronext	39,100	1,301
Michelin – B	34,400	2,473
		3,774
Germany		
Adidas	38,800	5,655
Bayer	38,200	2,172
Deutsche Boerse	26,000	1,963
Draegerwerk – Preferred	60,549	2,010
Escada – Preferred	9,841	319
Fraport	11,600	482
Henkel KgAa – Vorzug	31,600	3,914
Hornbach Baumarkt	48,600	2,299
Hornbach Holdings	19,860	2,018
Linde	73,500	6,511
Merck KgAa	104,720	5,027
Siemens	44,850	4,775
Stinnes	92,600	4,753
		41,898
Greece		
Hellenic Telecom	30,000	841
Hellenic Telecom – ADR	26,000	359
		1,200
Italy		
Alleanza Assicurazioni	283,800	4,833
Assicurazioni Generali	81,900	3,428
Mediaset	160,700	2,213
Rinascente	313,225	2,145
Rinascente – Savings	139,000	835
		13,454

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
Netherlands		
CSM-CVA	19,000	810
Hagemeyer	96,722	2,372
Nutreco Holding	8,700	526
Oce	103,000	2,129
		5,837
TOTAL EUROPE – EURO		66,163
EUROPE – OTHER		
Denmark		
Novozymes – B	95,999	3,849
		3,849
Sweden		
Ericsson – B	531,700	1,425
		1,425
Switzerland		
Givaudan	3,100	2,216
Kuehne & Nagel	5,150	675
Lindt & Spruengli – Registered	50	560
Novartis – Registered	7,000	546
Schindler – Participating Certificates	9,200	2,960
Schindler – Registered	480	154
Schweizersche Industrie Gesellschaft Holdings – Registered	8,525	2,016
SGS Societe Generale de Surveillance Holding	1,085	614
		9,741
United Kingdom		
RMC	28,618	509
		509
TOTAL EUROPE – OTHER		15,524

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
NORTH AMERICA		
Canada		
Fairfax Financial Holdings – Sold Short	(4,450)	74
Inco	24,600	986
Ivanhoe Mines	30,900	110
Methanex	57,500	841
		2,011
United States		
3M – Sold Short	(9,000)	11
Accenture – Sold Short	(42,300)	32
Advanced Micro Devices	112,780	1,941
Affiliated Computer Services – Sold Short	(20,900)	211
Agere Systems – A	312,100	773
Agere Systems – B	60,000	159
Americredit – Sold Short	(101,500)	(293)
Caliper Technologies	12,000	177
Capital One Financial – Sold Short	(17,300)	(90)
Cintas – Sold Short	(13,400)	9
Colgate-Palmolive – Sold Short	(2,700)	22
Concord EFS – Sold Short	(40,300)	36
Duke Energy	31,300	1,723
Electronic Data Systems	37,000	2,433
Fannie Mae – Sold Short	(15,200)	51
Fleetwood Enterprises	97,800	1,506
Freddie Mac – Sold Short	(36,800)	212
Freeport-McMoran Copper – B	64,600	2,041
Greater Bay Bancorp – Sold Short	(59,900)	96
Harley Davidson – Sold Short	(55,700)	131
i2 Technologies	202,100	529
Jones Lang Lasalle	42,100	1,841

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
L-3 Communications – Sold Short	(6,000)	37
Lehman Brothers Holdings – Sold Short	(15,200)	(82)
Lennar – Sold Short	(20,500)	(152)
National Semiconductors	20,900	1,079
Newmont Mining	59,750	2,785
NVR – Sold Short	(2,100)	10
Parametric	299,900	1,821
Procter & Gamble – Sold Short	(9,400)	4
QLogic – Sold Short	(6,400)	(18)
Sears, Roebuck – Sold Short	(42,700)	(121)
SPX – Sold Short	(20,100)	459
Stryker – Sold Short	(38,400)	197
Univision Communications – A – Sold Short	(15,500)	55
US Cellular	10,800	487
VEECO Instruments	28,000	1,146
Verizon Communications	28,927	2,057
Wallgreen – Sold Short	(29,200)	(30)
Wal-Mart Stores – Sold Short	(27,200)	117
		23,402
Total North America		25,413
SOUTH AMERICA		
Peru		
Bayer Peru – Trabajo	77,287	110
Cerveceria Backus & Johnson – Trabajo	484,748	196
Peru Holding De Turismo – Trabajo	1,667,523	109
		415
SOUTH AFRICA		
Gold Fields – ADR	142,200	2,824
		2,824

11. Investment Portfolio continued	Quantity	Net Fair Value $'000
LIQUIDS		
Outstanding Settlements		1,261
Foreign Exchange Contracts		(395)
Cash at bank and on deposit		26,531
		27,397
TOTAL INVESTMENT PORTFOLIO (note 12 (a) and (b))		202,992
Accounted for in Payables (payables on purchase of investments)		937
Accounted for in Receivables (proceeds on sale of investments)		(2,111)
Accounted for Receivables (dividends receivable)		(87)
ACCOUNTED FOR IN INVESTMENTS (note 3)		201,731

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 $91,130,708 (2001: $73,351,685) have a net fair value of $75,133,710 (2001: $59,796,846).

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.

12. Risk Management continued

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.

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

12. Risk Management continued

(a) Investments at Net Fair Value and Derivatives Exposure

	Physical $'000	Futures & Options $'000	Upside[i] $'000	Futures & Options $'000	Downside[ii] $'000
Japan	36,435	–	36,435	–	36,435
Other Asia	25,762	–	25,762	–	25,762
Australia	3,059	(2,755)	304	(2,755)	304
Europe ~ Euro	66,163	–	66,163	–	66,163
Europe ~ Other	15,524	–	15,524	–	15,524
North America	25,413	(58,424)	(33,011)	(58,424)	(33,011)
South America	415	–	415	–	415
Africa	2,824	–	2,824	–	2,824
	175,595	(61,179)	114,416	(61,179)	114,416
Liquids	27,397	61,179	88,576	61,179	88,576
Total	202,992	–	202,992	–	202,992

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.

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.

12. Risk Management continued

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	37,719	–	(36,207)	1,512
Other Asia	26,427	–	–	26,427
Australia	2,700	127,472	–	130,172
Europe ~ Euro	69,040	10,654	(34,703)	44,991
Europe ~ Other	18,498	2,414	(9,001)	11,911
North America	48,193	2,718	(63,347)	(12,436)
South America	415	–	–	415
Total	202,992	143,258	(143,258)	202,992

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 15 days to 75 days.

(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	2002 $'000	2001 $'000
Opening Balance – 1 July – converted at 30% (2001: converted at 34%)	**75,619**	31,158
On tax paid and payable:		
2000/2001	**–**	46,100
2001/2002	**28,416**	–
Prior year tax provision – franking adjustment	**(12)**	(15)
Interim dividend paid – franked at 30%	**(5,493)**	(5,346)
Proposed dividend – franked at 30%	**(11,081)**	(10,802)
	87,449	61,095
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 2002, after deducting franking credits applicable to any proposed dividends:		
Accumulated profits	**59,500**	56,158
	59,500	56,158

14. Dividends (fully franked)	2002 cps	2002 $'000	2001 cps	2001 $'000
Paid – Interim fully franked at 30% (2001: 34%)	**5.00**	**5,493**	5.00	5,346
Proposed – Final fully franked at 30% (2001: 30%)	**10.00**	**11,081**	10.00	10,802
	15.00	**16,574**	15.00	16,148

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.

A 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 Performance fee for that year. The aggregate of underperformance is carried forward until a Performance fee becomes payable.

The pre-tax performance of the portfolio for the year to June 2002 was 13.84% against the MSCI's negative 23.16%. This represents an outperformance of 37.0% against the MSCI and 32.0% 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 Performance fee is payable for the period from the last calculation of the Performance fee (as described above) to the date of termination.

	2002 $'000	2001 $'000
Manager's Fee	**3,000**	2,986
Performance Fee	**6,414**	4,038
Amounts paid and payable to the Investment Manager for the year	**9,414**	7,024

16. Contingent Liabilities and Commitments for Expenditure

No contingent liabilities exist at balance date.

The Company has no commitments for uncalled share capital on investments (2001: $453,000).

17. Segment Information	2002 $'000 Segment Revenue	2002 $'000 Segment Result	2001 $'000 Segment Revenue	2001 $'000 Segment Result
Japan	**(9,101)**	**(9,141)**	9,127	9,063
Other Asia	**5,231**	**5,175**	(1,782)	(1,818)
Australia	**433**	**433**	(19)	(19)
Europe – Euro	**7,117**	**6,915**	10,479	10,238
Europe – Other	**2,827**	**2,758**	1,164	1,102
North America	**26,051**	**26,014**	63,548	63,510
South America	**(109)**	**(109)**	(884)	(884)
Africa	**32**	**29**	–	–
Unallocated Revenue – Net gains/(losses) on Currency hedging transactions (realised and unrealised)	**10,125**	**10,125**	(3,250)	(3,250)
Unallocated Expenses	**–**	**(10,052)**	–	(7,979)
Total	**42,606**	**32,147**	78,383	69,963

	2002 $'000 Segment Assets	2002 $'000 Segment Liabilities	2001 $'000 Segment Assets	2001 $'000 Segment Liabilities
Japan	**4,071**	**236**	41,182	–
Other Asia	**22,329**	**–**	22,544	–
Australia	**130,589**	**21,466**	2,827	18,944
Europe – Euro	**43,135**	**–**	49,230	–
Europe – Other	**10,270**	**320**	16,014	–
North America	**(14,799)**	**381**	52,690	60
South America	**445**	**–**	565	–
Africa	**1,304**	**–**	–	–
Total	**197,344**	**22,403**	185,052	19,004

18. Subsequent Events

No significant events have occurred since balance date which would impact the financial position of the Company as at 30 June 2002 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 2002.

(b) Directors' Remuneration

Remuneration received or receivable by the Directors of the Company, including aggregate amounts paid to superannuation plans, is disclosed in 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 is shown below in the relevant income bands:

	2002	2001
$20,000 – $29,999	**–**	2
$30,000 – $39,999	**1**	–
$40,000 – $49,999	**1**	–

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:

	2002 Ordinary Shares	2001 Ordinary Shares
WK Neilson	**1,516,924**	1,506,369
AM Clifford	**1,305,788**	1,310,296
RM Halstead	**1,291,712**	1,297,225

19. Related Party Information continued

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

	2002 Ordinary Shares	2001 Ordinary Shares
Acquisitions		
WK Neilson	**115,725**	122,013
AM Clifford	**100,662**	106,132
RM Halstead	**99,657**	105,073
Disposals		
WK Neilson	**105,170**	–
AM Clifford	**105,170**	–
RM Halstead	**105,170**	–

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:

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

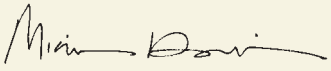
(b) give a true and fair view of the Company's financial position as at 30 June 2002 and its performance as represented by the results of its operations and its cash flows for the financial year ended on that date.

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
9 August 2002

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

Audit Opinion

In our opinion, the financial report, set out on pages 24 to 50:

– presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Platinum Capital Limited as at 30 June 2002 and of its performance for the year ended on that date;

– is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and Summary of Our Role

The Financial Report – Responsibility and Content

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the Directors of Platinum Capital Limited. It includes the financial statements for Platinum Capital Limited (the Company).

The Auditor's Role and Work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the Directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's financial position, and its performance as represented by the results of its operations and cash flows.

The procedures included:

– selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence;

– evaluating the accounting policies applied and significant accounting estimates made by the Directors in their preparation of the financial report;

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED CONTINUED

– obtaining written confirmation regarding material representations made to us in connection with the audit;

– reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Company and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Company. These services are disclosed in the Statement of Financial Performance. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers
Chartered Accountants

PK Merrett
Partner

Sydney
9 August 2002