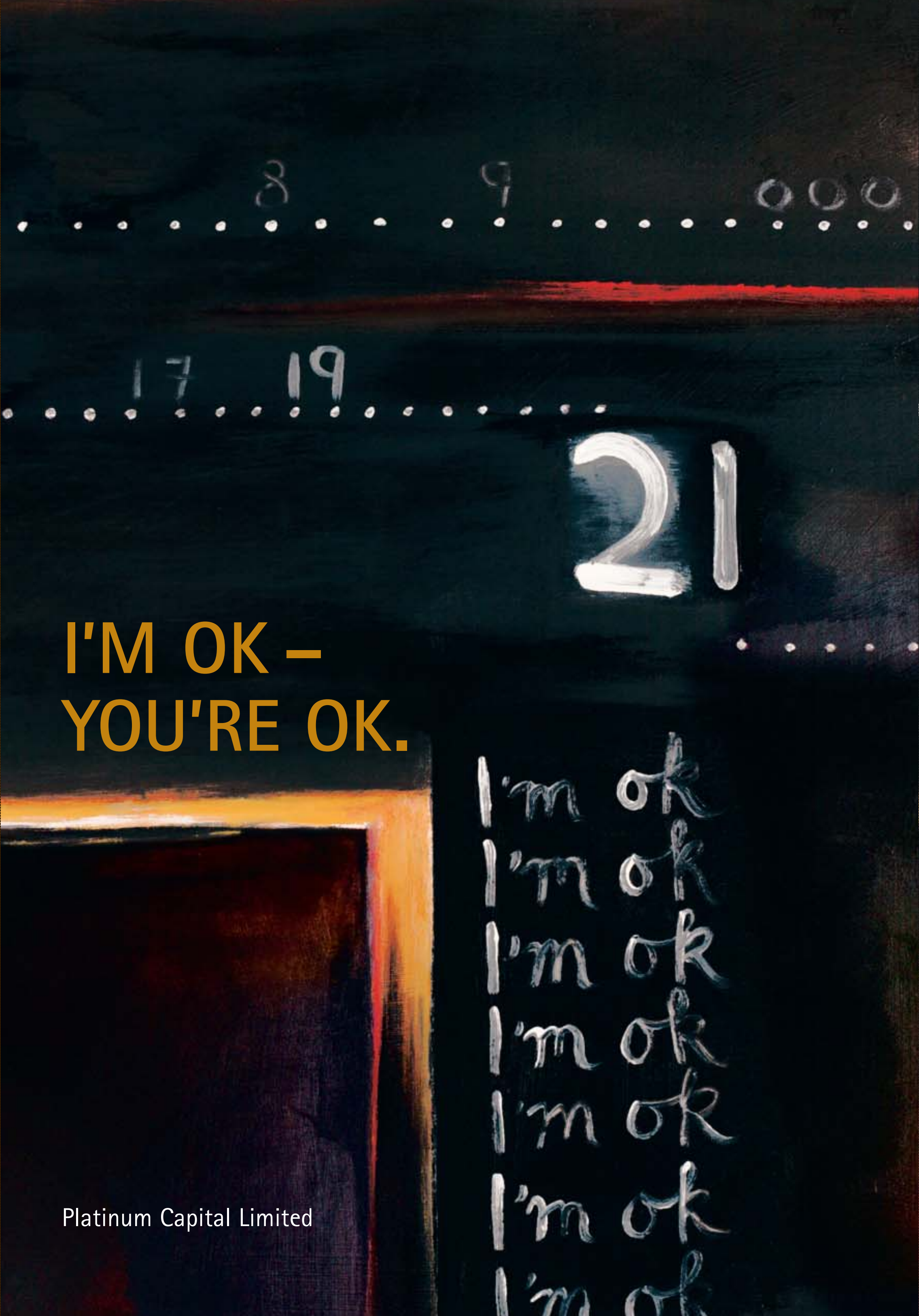
I'M OK – YOU'RE OK.



Platinum Capital Limited

I'M OK – YOU'RE OK.

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INTRODUCTION

As we have done in previous years, we offer shareholders our own material or external articles that have caught our attention through the past financial year. Many of our shareholders are ardent stock market participants, so we attempt to select material that we have found of assistance to reinforce the disciplines and avoid the pitfalls that we all face as we try to outwit the herd.

In his article “Part man, part monkey”, James Montier of investment bankers Dresdner Kleinwort Wasserstein teases us with various examples of self-deception with which most of us can readily identify. Worse still, we see that we are often serial offenders and extraordinary slow learners. The illusion of knowledge is one of the defining characteristics of young analysts; if we only followed the advice of being “less certain in your views” and “aim for timid forecasts and bold choices” we would be generally surprised at our successes. So-called anchoring and framing of information are common red-herrings that we fall for. A great example of this is the ubiquitous advertisement, “97% fat free”. Among the other eloquently explored concepts are confirmatory bias and loss aversion, but before I ruin the exercise do spend a while on James’ piece.

The first of the two articles, “What Price for the Last Drops?”, was penned by our own resources analyst, Scott Gilchrist. Scott has been busy trying to fathom the apparent contradictions of a strong oil price post the change of control in Iraq, and the claims of plentiful supply of oil. Gathering information from diverse sources including the oil majors, the drilling service companies and academic papers, Scott has reached some alarming views. It is not so much that we are about to imminently run out of oil – more that man's ingenuity has ensured that we have probably discovered nearly all the readily exploitable reserves, that depletion is occurring much faster than new additions to reserves and all this is happening just as the great populations of China and India climb aboard the energy-consuming treadmill. Scott offers some useful statistics and sources for further investigation for those who recognise the significance of this quote from Shell: "If we assume a moderate 5% annual decline in existing oil fields, the total new production needed by 2020 could be as high as 50 million barrels per day". The world is already consuming some 76 million barrels per day or 4,000 million tons per annum!

The delight of the markets is that prices adjust very quickly but at the same time slow-moving events can sometimes cause immense surprise. Do enjoy the articles.

Kerr Neilson Managing Director

OF FISH AND MEN

The cod was once so plentiful in the North Atlantic that early explorers claimed that you could walk on the backs of the teeming fish. In 1497, Giovanni Caboto (better known as John Cabot) noted that his men "simply dropped baskets over the side to haul in all they could eat."

Cod should have lasted forever, and for a very long time it was assumed that it would.

> "Leewenhoek counted 9,384,000 eggs in a cod-fish of a middling size – a number that will baffle all the efforts of man to exterminate."
>
> J Smith Homans and J Smith Homans, Jr., editors, Cyclopedia of Commerce and Commercial Navigation, New York, 1858

So abundant was the yearly catch that any talk of stock depletion or species extinction fell on deaf ears.

> "Unless the order of nature is overthrown, for centuries to come our fisheries will continue to be fertile."
>
> Canadian Ministry of Agriculture, 1885

Cod stocks are now at perilously low levels and show no signs of imminent recovery.

> "It is harder to kill off fish than mammals. But after 1,000 years of hunting the Atlantic cod, we know it can be done."
>
> Mark Kurlansky, Cod: A Biography of the Fish That Changed the World, 1997


Time and Tide wait for no man

WHAT PRICE FOR THE LAST DROPS?

Scott Gilchrist Platinum Capital Limited

Many who follow the oil industry recount numerous predictions of imminent peaking of crude oil extraction and subsequent decline (most particularly when prices are high like now – $30 per barrel). Some observers refer to their fathers and grandfathers who pass on stories from as far back as the 1950s. There were even predictions in the 1800s of the coming demise of the oil industry. As each prediction passed without catastrophe, the authors were accused of "crying wolf" and **each incorrect prediction reinforced the case for never-ending flows of cheap crude oil**.

The genesis of easy-to-extract light hydrocarbons lies in ancient stagnant waters and sedimentary basins. Through geologic time, the organic material was altered and flowed to porous reservoirs capped by impermeable layers. Most of such material (the North Sea and the Middle East) was laid down in Jurassic time about 140 million years ago while the material in the North American belt is younger at about 90 million years old. The temperature history of the rocks as they rose and subducted through the "oil window" governed the transformation to oil and gas or led to the destruction of the hydrocarbons at high temperatures. Once hydrocarbons have been extracted from the earth and burnt, they cannot be regenerated in a time span useful for mankind. **Easy-to-produce crude oil and natural gas are truly non-renewable finite resources.**

The numerous predictions of depletion of crude oil (the fuel which drives our modern transportation system) have been correct in substance. There is little doubt that we will eventually change to a new transportation fuel. However, **timing is the issue**. A current group of "pessimists" is fighting against cloudy statistics and vested interests to bring this debate to a wider forum before it becomes a major problem. Their warnings are scientific estimates based on the best available data. These men are mainly scientists with long histories in the oil industry working for companies such as TotalFinaElf, ExxonMobil, ChevronTexaco and Shell (note the many mergers). Often these practical explorers have spent many decades under star-studded skies in the pioneering exploration periods of regions such as Trinidad, Colombia, Venezuela and Norway.

The "optimists" (often economists or university lecturers) use the concept of an energy pyramid (oil, gas, coal, nuclear fission, wind, solar …) containing enormous amounts of energy, where we use the most convenient form first. They call upon man's ingenuity and his ability to discover and commercialise new energy sources as a guiding principle. From this viewpoint there is no energy crisis pending as the market will resolve our future energy supply needs … but at a price!

Unfortunately, the debate between the "optimists" and the "pessimists" is in scientific circles with infrequent representation to OPEC, the House of Lords or Capitol Hill. This is not surprising – it is hard to find an example where humans have consciously limited their consumption before depletion. From old-growth forests to fisheries to fresh water, mankind has a voracious appetite.

The world is currently consuming about 76 million barrels per day (mbpd) of non-renewable liquid petroleum fuel (27 billion barrels per annum), **a weight of about four billion tonnes per year**. At the same time we are on average discovering new conventional fields at a rate of less than 10 billion barrels per year (less than a third of production). Our geological inheritance is being depleted at a rapid rate.

"Peaking means running out"

Peaking of crude oil production is often referred to as "Hubbert's Peak" after the late M. King Hubbert, who first described the production profile of oil as a finite resource. Hubbert's curve shows steep growth followed by a single or multiple peaks and then a decline as the resource is exhausted. There are infinite numbers of possible curves but most fields, reservoirs and basins exhibit a bell curve style shape albeit asymmetrical with steep rise and slow decline. A common characteristic is that production rates tend to decline when about half of the ultimate recoverable reserves have been produced. Peaking and subsequent decline is not a theoretical issue – Shell, the western world's premier oil and gas producer, admits that decline rates approach 20% per annum in their older fields.

The distinction between peaking of production and exhaustion of a resource tends to confuse observers and raise calls of crying wolf. **After peaking, there is still a high level of production.** Fracturing, horizontal drilling, gas injection and water injection are all used to help maintain extraction levels.

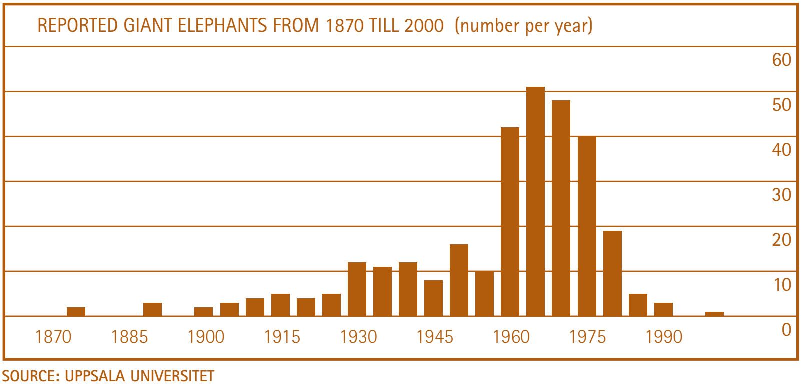
US crude oil production peaked in 1970, when daily output from the 48 contiguous states was about nine mbpd. Current equivalent production is approximately three mbpd, a 67% decline. This decline was mainly due to a reduction in Texan output and coincident peak in Californian production. Overall US production decline was ameliorated by production from new geographic areas such as Alaska and the offshore Gulf of Mexico. Other examples of peaking are the early 1990s US peak in conventional gas production and the North Sea crude oil production peak in the late 1990s.

Hubbert's peak is equally applicable to individual wells, fields, basins, countries and the world. **Many analysts estimate that world production will peak before 2020 and enter a period of decline of about 1% per annum.** While such a decline may not appear alarming, it will occur as the likes of India and China industrialise. Worryingly, peak production events such as these are often not widely discussed until the peak has passed.

"Discovery of crude oil has been increasing"

Early oil discoveries were made by investigating surface oil seeps and surface expressions of geological structures. These methods found many of the major oil fields still in production today, such as Kirkuk (1927, Iraq) and Burgan (1938, Kuwait). The first uses of seismic exploration in California brought a powerful new tool to bear, leading to many enormous discoveries. Modern computers which allow visualisation of sub-surface stratigraphy, new drill hole logging[1] methods and improved seismic resolution led to lower discovery costs during the 1990s. However, they have not been able to reverse the long-term decline in discovery.

Backdating discovery of crude oil to the first successful wildcat well[2] in each major hydrocarbon zone shows a **discovery peak in the 1960s** (see chart below) and subsequent structural decline. The discovery date of "giant elephants"



SOURCE: UPPSALA UNIVERSITET

1. Logging (borehole geophysics) is the sophisticated acquisition and interpretation of reservoir strata and hydrocarbon data using "down the hole" tools such as porosity, resistivity and sonic velocity gauges.
2. An oil well drilled in an area not previously known to contain oil.

shows a discovery peak in the 1960s. Ominously, only one of the 371 largest reservoirs in the world was found in the 1990s!

Three recent discoveries in Iran and the Caspian region (Ferdow – 38 billion barrels; Azagedan – 26 billion barrels, nine billion recoverable; Kashagan – 36 billion barrels, nine billion recoverable) are encouraging **but each one of these discoveries would only satisfy world demand for four months** (and each has political or quality problems). At today's high oil prices the economics of a very large, easy-to-produce reservoir are mouthwatering and easily able to support a high level of wildcat exploration. Perhaps such marvels have all been found.

An example of "diminishing returns" from exploration may be seen in ExxonMobil's development of Banyu Urip in Indonesia. Recoverable reserves are estimated at only 250 million barrels and the development cost is estimated at US$1.2 billion ($4.80 per barrel). Peak production will be about 165,000 barrels per day. This development uses modern technology such as horizontal drilling and fracturing to give initial high production levels. Assuming constant production rates, the reservoir would be depleted in about four years. Some may find it surprising that the industry leader, in terms of output, should trouble itself with a project of this limited significance.

Worldwide, recent history has shown a short-term increase in discovery rates as the industry depleted its inventory of the 1980s and moved into more hostile

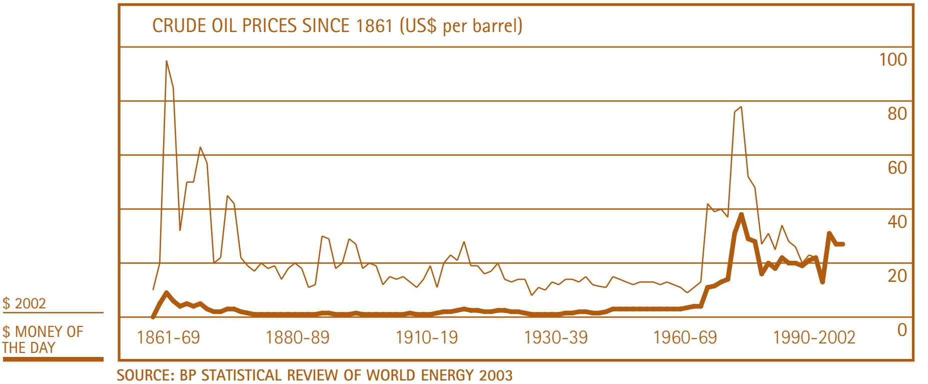
environments such as the deep offshore and the Caspian Sea. Such discovery rates remain less than a third of the 1960s discovery rates and much less than annual production. Peaking of discovery must be followed by peaking of production – and it appears that discovery peaked about 40 years ago.

"Existing reserves are adequate"

An estimate of the remaining reserve life is often calculated by dividing the estimated recoverable reserves by the annual production. Based on generally accepted estimates, world production to date is about one trillion barrels with another trillion (±30%) to produce. At 2002 production rates of 26 billion barrels per annum, this calculation gives a reserve life of 37 years (±11 years). However, this ignores increasing demand for liquid fuels which is currently running at a rate of about 2% per year. At this growth rate, the above expected reserve life of 37 years reduces to 30 years – **complete exhaustion of conventional crude oil within 30 years**.

"Oil production increases each year"

The modern oil industry started with the drilling of Spindletop in 1901 near Beaumont, Texas (unsurprisingly Ford's Model "T" debuted in 1909). As discovery of giant oil fields increased through the 1900s, production and consumption grew exponentially with decreasing real prices (see chart over). From the 1850s to



SOURCE: BP STATISTICAL REVIEW OF WORLD ENERGY 2003

the 1960s the real price of crude oil fell from $90 per barrel to $10 per barrel (2002 dollars) on a glut of oil. After the 1973 fourfold price increase and subsequent 1978 doubling, demand fell as electricity generation moved to coal and nuclear power and auto usage stabilised. Subsequent slower demand growth has led to current production being slightly above the 1970s peak.

This broad view of consumption trends masks some major changes. It is estimated that 99 countries around the world produce meaningful quantities of crude oil. Analysis of the production profile of each country concludes that 60 of these countries are in decline and a further 10 countries are on the verge of decline – Hubbert's Peak. Conventional oil production in the US, Cameroon, Indonesia, Egypt, Austria, etc is well below their peak production rates and cannot be expected to recover to high levels. Even more worrying is that of the top 42 producing nations, 15 are in decline and 14 are likely to peak in the next three years. Only six countries are estimated to peak beyond 2010 – Iraq, Brazil, Saudi Arabia, Colombia, the United Arab Emirates and Kuwait.

"Supply of crude oil is diverse"

Nature's endowment has been very uneven in its distribution of "black gold" – over 80% of the world's resources is contained in two swathes of land. The first (North America) sweeps down from Alaska to Venezuela passing through Alberta, Texas and the Gulf of Mexico. The second region (Middle East) starts in the western Siberian regions of Russia and ends in North Africa, passing through the Caspian Sea and the Middle East. Even more striking, the majority of the productive regions of the Middle East fit within an area the size of Queensland. Yes, the main productive fields of Qatar, Kuwait, Iran, Iraq, Saudi Arabia and the United Arab Emirates, with over 65% of remaining proved reserves and over 25% of current production, would all fit between Tweed Heads, Mt Isa and Cairns.

Contrary to most people's knowledge, the world is very dependent on a small number of large fields. Fourteen large fields (average age of 44 years) with extraction rates over 0.5 mbpd provide 20% of the world's supply. The world's 120 largest oil fields (out of 4,000 worldwide) provide almost 50% of the world's crude oil output. OPEC-6's[3] twenty-two largest fields, with an average age of 55 years, account for 75% of their production.

The astounding Saudi Arabian Ghawar field, discovered in 1948, produces over five mbpd – about 7% of world supply.

"The US uses energy efficiently"

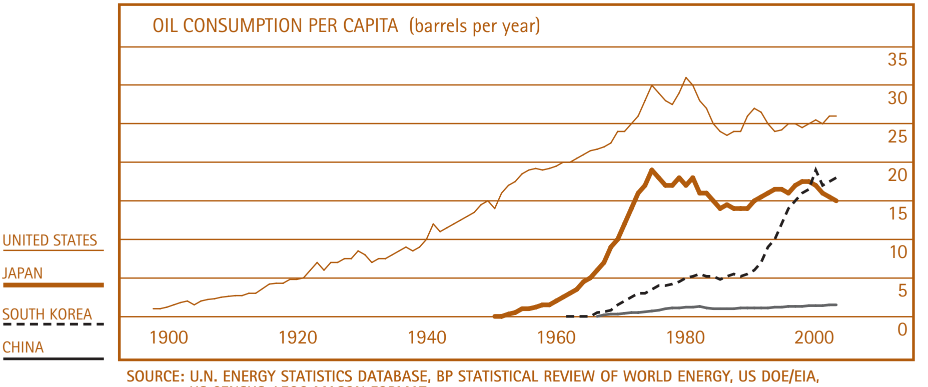
World energy usage is very unevenly distributed. 12% of the world's population uses 54% of the world's modern energy. An average American consumes over 25 barrels of oil per annum while the average Chinese or Indian uses about one barrel per annum (see chart below). Additionally, there are about two billion people in the world who don't have ready access to modern energy. With the wealth of these people increasing and Chinese and Indian light vehicle production growing rapidly, oil demand will increase in the future even if the fuel-guzzling craze in the west declines.

The US is currently the largest consumer in the world and is the world's largest importer.

Shell estimates that with estimated 2020 demand of 90 mbpd (1% per annum growth) and the decline of existing fields, the world must build new extraction capacity of 40 mbpd by 2020. Current production levels are only about 76 mbpd.

"OPEC has large amounts of spare capacity"

Contrary to most observers' perceptions, OPEC's spare capacity is small, if not zero. Saudi Arabia is possibly the only country with significant surplus capacity – and this



SOURCE: U.N. ENERGY STATISTICS DATABASE, BP STATISTICAL REVIEW OF WORLD ENERGY, US DOE/EIA, US CENSUS, LEGG MASON FORMAT

3. OPEC-6 consists of Iran, Iraq, Kuwait, Saudi Arabia, the United Arab Emirates and Venezuela.


DEEP

is less than two mbpd. It appears that the large amounts of spare capacity (>20%) of the late 1980s have been reduced to less than 5% (and arguably zero).

OPEC production figures for individual wells and fields are not available. Anecdotal evidence from oil service companies and technical experts suggests that many of their major fields are suffering depletion – there are reports of increasing water production (rising water content of reservoir fluids[4]), more intensive secondary oil recovery techniques and the call for foreign investment of capital and technology. Some senior OPEC members have been quoted off the record as saying that the maximum future production capacity of OPEC is not far above current production due to ageing oil fields and lack of recent exploration success.

OPEC geology is not immune to Hubbert's Peak – OPEC-6's twenty major oil fields are old and have been producing at high levels for many decades. Saudi Aramco, the Saudi Arabian national oil company, states that "more than one-fourth of our new field discoveries by number have been made since 1989", but none of these discoveries has been a giant field.

In reality, the level of OPEC spare capacity is not really relevant. What really matters is spare capacity and production growth in the rest of the world. Unless non-OPEC producers can increase production to meet increased demand, OPEC will control the marginal barrel of oil and should be expected to optimise the economic value of their natural endowment. As the 1970s peak in US production (controlled by the Texas Railroad cartel) gave OPEC control of the marginal barrel, the apparent peak in overall non-OPEC production is once again returning OPEC to a pre-eminent position.

The Middle East has an extraordinary population distribution which has all the hallmarks of trouble given its circumstances – about 50% of the population is below the age of twenty. OPEC currently needs an oil price of at least $20 per barrel to balance their budget and this number increases each year. Having to some extent failed to use the earlier oil price hike to maximise the economic advancement of their people, rulers of several of these oil producers are now in an invidious position. Higher oil revenues would contribute greatly to easing their burden. In such a situation, it is easy to argue for higher levels of redundancy in the oil supply system.

"Natural gas is the answer"

Methane, or natural gas (CH_4), has been hailed as the next great fuel. As the simplest hydrocarbon – four hydrogen atoms around a central carbon atom – it has a high hydrogen to carbon ratio producing the least amount of carbon dioxide when ignited – thus lower "greenhouse" emissions. For context, around 0.1 tonne of carbon dioxide is produced with the extraction of each barrel of oil. Unfortunately, there are

4. As oil is progressively extracted from the reservoir, water replaces the oil in the reservoir pores. Near the end of a reservoir's life, the amount of water extracted with the crude oil increases quickly.

negative aspects to methane. Its low energy density makes it problematic as a transportation fuel and makes it more difficult to transport over long distances than crude oil as it must be converted to liquid form as either LNG (through compression) or Fischer Tropsch liquids.

Unfortunately, the main problem with natural gas is the same one as with crude oil – it is a finite resource. **Discovery has perhaps peaked and production of natural gas will peak this century.** The main reserves of methane are in the Middle East and Russia with attendant strategic risks.

"Technology will solve the problem"

The oil industry has an extremely high level of technology – some consider it second only to the aerospace industry in technical complexity. ExxonMobil employs around 3,000 doctorates and over 30,000 engineers. As one would expect for an industry with annual revenues of US$1 trillion (3% of world GDP), the oil and gas industry has had a multi-billion dollar R&D budget for many decades. One of the technological marvels is directional drilling – accurately steering a diamond-tipped drill bit remotely up to a distance of 10 kilometres through rock (vertically and horizontally) to reach small accumulations of oil. This technique is widely used in offshore developments – which now comprises over 30% of world production (up from 10% in the 1970s, and growing). The Campos Basin off the coast of Brazil produces over one mbpd from a network of 1,000 wells and 28 platforms connected by 1,300 kilometres of subsea pipelines and 2,500 kilometres of flexible flowline in water depths of up to 1.5 kilometres. Remote-operated vehicles on the ocean floor have replaced divers in subsea vehicles for construction and maintenance activities.

New exploration technology cannot produce new reservoirs, it can only find them more efficiently (and find where they are not!). Improved technology has increased extraction rates for many fields toward 50% from the 30% of earlier decades. Reservoir characteristics such as porosity and flow rates dictate the cost of extraction. While 100% recovery is not achievable, higher recovery rates become economic at higher prices. Of particular interest is that with good access to capital and a large market, the US has not been able to arrest the decline from their onshore fields despite the application of the best technology.

"The far ends of the earth have not yet been explored"

Some keep reminding us about exciting new exploration regions – the polar caps, deep offshore, the South China Sea, the Caspian Sea, western Iraq and Iran. Many of these regions are not new – one of the first oil wells in the world was drilled in 1846 at Baku on the edge of the Caspian Sea. Others regions have high capital and operating costs (the poles) or have high levels of political and social risk. Others simply do not contain hydrocarbon. Of the thousands of geologic basins around the world, only 128 have been found to contain economic accumulations of oil and gas.

BP's major exploration regions at the moment are Trinidad, Angola, Azerbaijan and the deepwater Gulf of Mexico – all well recognised and relatively mature hydrocarbon provinces. It is hard to name a large new light crude oil province opened up in the last two decades.

The global exploration teams of the mid-1900s searched the world for prospective basins – Venezuela, offshore Australia, Nigeria – and their work was updated after the 1970s' crises. The industry will continue to discover oil but without more discoveries of giant fields, the enormous annual inventory drawdown cannot be replenished.

"Russia is the next growth frontier"

Recent production and export levels from Russia have surprised many observers. With the devaluation of the rouble, the production rates of well-known fields have been increased to a level where overall production is approaching the previous peak. Unfortunately, the majority of oil fields in Russia are old and in terminal decline with very high water cuts. Their remote location (2,000 kilometre-long export pipelines) and the cold weather make for relatively high production costs at reasonably long-term projections for the rouble.

Russia has drilled 8,000 wildcat wells – third only to the US (400,000) and Canada (19,000) – as you would expect from the nation which launched Sputnik! Russian discovery peaked in the 1960s and production peaked in the 1980s. Current (and unsustainable) low rates of internal usage are freeing resources for export.

The attraction of Russian production (for the brave only!) is argued by BP's acquisition of TNK. Perhaps the rapid depletion of BP's core fields in the North Sea, Alaska and the US forced them to be more adventurous.

"US involvement in the Middle East is about democracy"

The world runs on cheap transportation fuels – the combination of the solar energy of the last millions of years and freak accidents of geology. No country relies on this more than the US with their low level of taxation for petroleum products, high annual import tonnage and reliance on gasoline spark ignition engines (efficiency 25-30%) rather than compression ignition diesel engines with efficiencies of between 35-42% due to higher compression ratios.

As you would expect, the oil and energy industry is deeply rooted in the world's political systems. Military and intelligence groups of the US have had long-standing involvement in Middle Eastern politics. It is inconceivable that the military establishment does not play an active part in formulating US foreign policy. Unsurprisingly, Iraq is amongst the few countries which have the potential to significantly increase production.

"The hydrogen economy is the future"

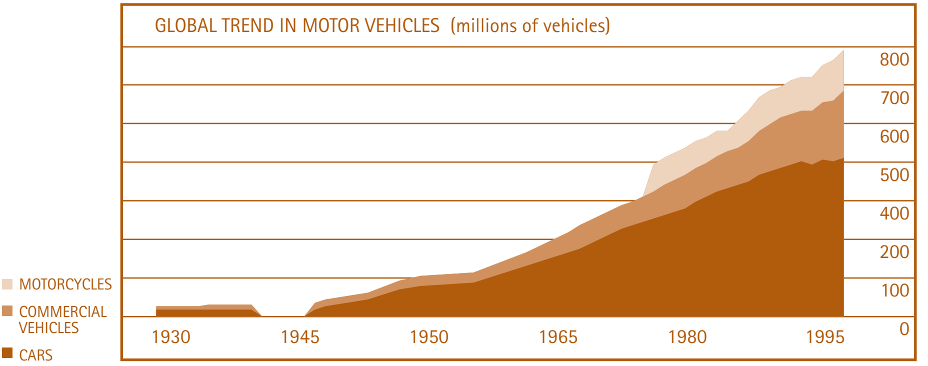
Geoffrey Ballard, the inventor of the Ballard PEM[5] fuel cell, has moved onto his next big project – **the hydrogen economy.** He envisions hydrogen as the mobile energy carrier (or currency) which replaces petroleum. The advantages of this system are abundant – lower levels of pollution (a hydrogen fuel cell only produces water and electricity), higher performance cars and an integrated electricity and transport network where each car is a mobile electricity source.

Unfortunately, as Ballard admits, this utopia is many decades away (he estimates 2070). The electricity required to generate the hydrogen would require a manyfold expansion of the current nuclear generator fleet of 440 operational reactors (with another 30 under construction) to avoid increasing greenhouse gas emissions. It is estimated that if only 4% of automobiles in California were powered by hydrogen fuel cells, the generation of the hydrogen from water would require all that state's existing electricity generation capacity. Another impediment is the price of a fuel cell engine, which is still 30 times the cost of an equivalent internal combustion engine. Other alternative fuels such as ethanol, compressed natural gas and methanol all have their own impediments, such as cost and availability of resources.

The inevitable transition to an alternative transportation fuel as conventional crude oil production declines will be slowed by many factors besides the infancy of hydrogen fuel technology. Higher crude prices will change demand patterns as, say, electricity generation is rebuilt to consume natural gas or LNG. Wind power will be used more widely. Reducing the weight of automobiles and trucks, changing to diesel engines and better engineering will gradually increase transportation efficiency. Paper products could replace some petrochemical-based packaging. At higher prices, production from non-conventional sources such as oil sands, oil shale and gas to liquids becomes very attractive. Additionally, the exploitation of fuels in high-cost locations such as polar regions, deepwater, light liquids and isolated small reservoirs would make a contribution. More secondary and tertiary recovery techniques can also be expected to be used.

The Canadian oil sands in the province of Alberta in western Canada have grown rapidly from a very small base in the 1960s and now produce about 500,000 barrels per day with growth to one mbpd anticipated by 2010. Shortages of craft labour, infrastructure constraints and the extreme cold all add to the difficulties and

5. Proton Exchange Membrane – solid polymer electrolyte.



SOURCE: MICHAEL P WALSH

cost of extraction. New plants cost about US$2.4 billion for an annual capacity of about 100,000 barrels per day ($66 per annual barrel of capacity) and operating costs of about US$12 per barrel. Unlike easy-to-produce conventional crude oil, production cannot be increased quickly.

"We are on the road back to Olduvai Gorge"

The world currently obtains 40% of its energy (and 99% of its transportation fuel) from cheap crude oil. Driven by humankind's affinity for convenient personal transportation (see chart above) and the likes of Indian and Chinese vehicle growth, increasing demand for transportation fuels could coincide with declining world crude oil production. This scenario is unlikely to be traversed uneventfully and the recent price rises could be mere harbingers of things to come. Such imbalances often lead to dramatic changes in the world economy.

At current prices for crude oil (around 30 Australian cents per litre), the market price for this finite commodity is markedly lower than bottled water. The growing world population's desire for cheap transportation fuels is assumed to be met seamlessly by man's ingenuity. Given the geopolitical sensitivity and internal imbalances of the major crude oil exporting nations, this is not the right time to be leaving such a large part of the world's economy to fate. Those who commercialise engineering solutions such as large windmills, hybrid vehicles, lightweight materials, fuel cell vehicles, oil sands and deepwater extraction are likely to be well rewarded over the next decades. While perhaps the stock market valuations of many of these companies appear high, perhaps they are merely imputing an option value to the possibility of major social upheaval in producing nations.


Cut on the Bias

PART MAN, PART MONKEY

James Montier Dresdner Kleinwort Wasserstein

Leaving the trees could have been our first mistake. Our minds are suited for solving problems related to our survival, rather than being optimised for investment decisions. We all make mistakes when we make decisions. The list below gives a top 10 list for avoiding the most common investment mental pitfalls.

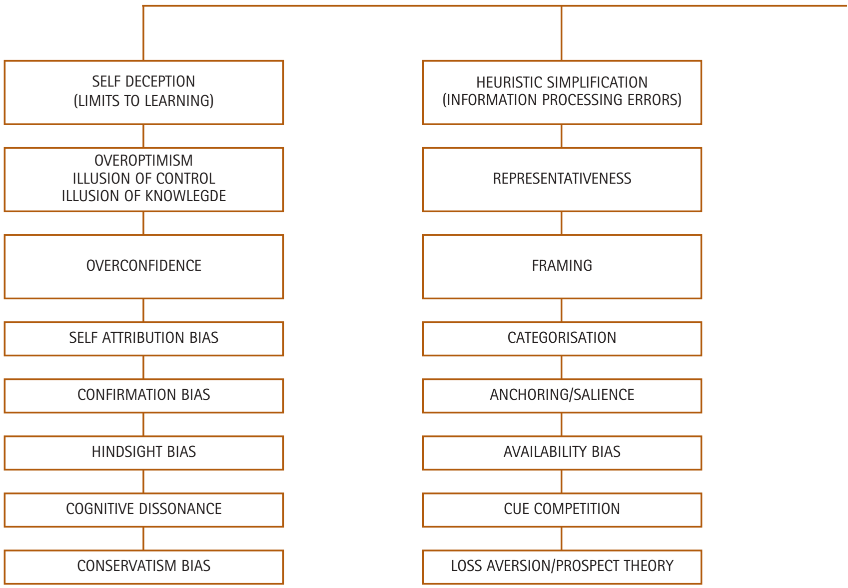
1. You know less than you think you do.
2. Be less certain in your views, aim for timid forecasts and bold choices.
3. Don't get hung up on one technique, tool, approach or view – flexibility and pragmatism are the order of the day.
4. Listen to those who don't agree with you.
5. You didn't know it all along, you just think you did.
6. Forget relative valuation, forget market price, work out what the stock is worth (use reverse DCFs).
7. Don't take information at face value, think carefully about how it was presented to you.
8. Don't confuse good firms with good investments, or good earnings growth with good returns.
9. Vivid, easy-to-recall events are less likely than you think they are, subtle causes are underestimated.
10. Sell your losers and ride your winners.

The simple truth is that we make mistakes when we come to decisions. Psychologists have spent years documenting and cataloguing the types of errors to which we are prone. The main results are surprisingly universal across cultures and countries.

Hirschleifer[1] suggests that most of these mistakes can be traced to four common causes: self-deception, heuristic simplification, emotion and social interaction. The table below tries to classify the major biases along these lines. The table outlines the most common of the various biases that have been found, and also tries to highlight only those with direct implications for investment.

The 10 guidelines listed on the previous page try to suggest ways in which we can avoid some of the most perilous of these errors. Simply being aware of their existence is not enough. We need to take active steps to structure our thought process in such a way that it becomes hard to fall back into old habits.

A TAXONOMY OF BIASES

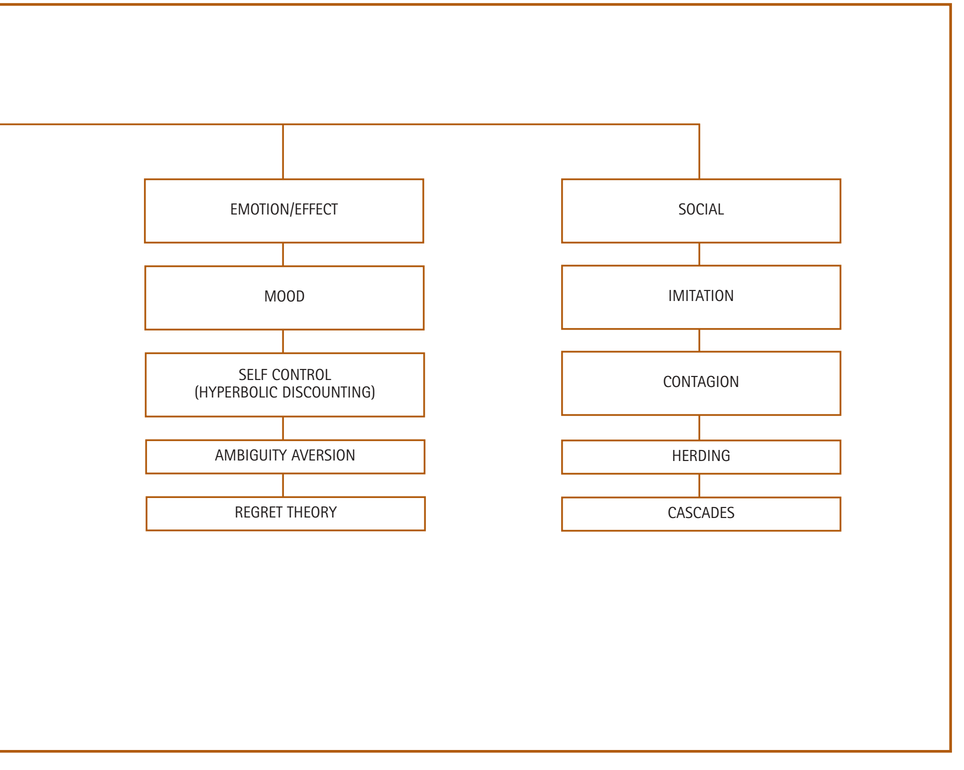


[1] Hirschleifer, D (2001) Investor Psychology and Asset Pricing, Journal of Finance 56.

Economists frequently assume that people will learn from their past mistakes. Psychologists find that learning itself is a tricky process. Many of the self-deception biases tend to limit our ability to learn. For instance, we are prone to attribute good outcomes to our skill, and bad outcomes to the luck of the draw. This is **self attribution bias**. When we suffer such a bias, we are not going to learn from our mistakes, simply because we don't see them as our mistakes.

The two most common biases are **over-optimism** and **over-confidence**. For instance, when teachers ask a class who will finish in the top half, on average around 80% of the class think they will!

Not only are people overly optimistic, but they are over-confident as well. People are surprised more often than they expect to be. For instance, when you ask people to give a forecast, and provide estimates of 98% confidence intervals, the true answer only lies within the limits around 60-70% of the time!



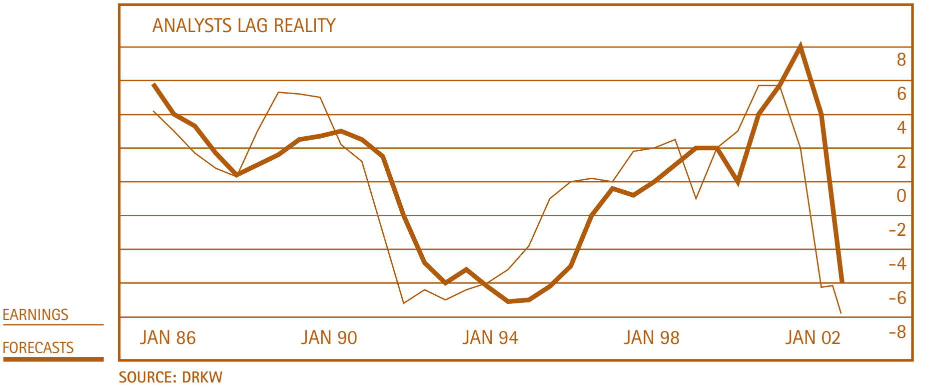
Over-optimism and over-confidence tend to stem from the **illusion of control** and the **illusion of knowledge**. The illusion of knowledge is the tendency for people to believe that the accuracy of their forecasts increases with more information. So dangerous is this misconception that Daniel Boorstin opined "The greatest obstacle to discovery is not ignorance – it is the illusion of knowledge". The simple truth is that more information is not necessarily better information, it is what you do with it, rather than how much you have that matters. This leads to the first guideline: **(1) You know less than you think you do.**

The illusion of control refers to people's belief that they have influence over the outcome of uncontrollable events. For instance, people will pay more for a lottery ticket which contains numbers they choose rather than a random draw of numbers. People are more likely to accept a bet on the toss of a coin before it has been tossed, rather than after it has been tossed and the outcome hidden, as if they could influence the spin of the coin in the air! Information once again plays a role. The more information you have, the more in control you will tend to feel.

Over-optimism and over-confidence are a potent combination. They lead you to over-estimate your knowledge, understate the risk, and exaggerate your ability to control the situation. This leads to bold forecasts (over-optimism and over-confidence) and timid choices (understate the risk). In order to redress these biases **(2) Be less certain in your views, aim for timid forecasts and bold choices.**

People also tend to cling tenaciously to a view or a forecast. Once a position has been stated most people find it very hard to move away from that view. When movement does occur it does so only very slowly. Psychologists call this **conservatism bias** (it can lead to anchoring which we will discuss a little later).

The chart below shows conservatism in analysts' forecasts. We have taken a linear time trend out of both the operating earnings numbers, and the analysts' forecasts. A cursory glance at the chart reveals that analysts are exceptionally good



SOURCE: DRKW

at telling you what has just happened. They have invested too heavily in their view, and hence will only change it when presented with indisputable evidence of its falsehood.

This leads to our third rule **(3) Don't get hung up on one technique, tool, approach or view. Flexibility and pragmatism are the order of the day.**

We are inclined to look for information that agrees with us. This thirst for agreement rather than refutation is known as **confirmatory bias**. The classic example is to consider four cards, each card carries one alpha-numeric symbol, the set comprises of E, 4, K, 7. If I tell you that if a card has a vowel on one side, then it should have an even number on the other, which card(s) do you need to turn over to see if I am telling the truth?

Give it some thought. Most people go for E and 4. The correct answer is E and 7, only these two cards are capable of proving I am lying. If you turn the E over and find an odd number then I was lying, and if you turn the 7 over and find a vowel then you know I was lying. By turning the four over you can prove nothing, if it has a vowel then you have found information that agrees with my statement but doesn't prove it. If you turn the four over and find a consonant, you have proved nothing. At the outset I stated a vowel must have an even number, I didn't say an even number must have a vowel!

By picking four, people are deliberately looking for information that agrees with them. Our natural tendency is to listen to people that agree with us. It feels good to hear our own opinions reflected back to us. We get those warm fuzzy feelings of content. Sadly, this isn't the best way of making optimal decisions.

Instead of listening to the people who echo our own view we should **(4) Listen to those who don't agree with us.** The bulls should listen to the bears, and vice versa. You should pursue such a strategy not so that you change your mind, but rather so you are aware of the opposite position.

Our final bias under those related to self deception is **hindsight bias**. It is all too easy to look back at the past and think that it was simple, comprehensible and predictable. This is hindsight bias – a tendency for people knowing the outcome to believe that they would have predicted the outcome ex ante. The best example I can think of is the US stock market over the last few years. Now pretty much everyone agrees that the US market witnessed a bubble, but calling it a bubble in 1998/99/00 was an awful lot harder than it is now! This faith in our ability to forecast the past gives rise to yet more bias towards overconfidence. This gives rise to our fifth rule **(5) You didn't know it all along, you just think you did.**

It is now time to move from self-deception to heuristic simplification. Heuristics are just rules of thumb for dealing with informational deluge. In many settings heuristics provide sensible short cuts to the “correct” answer, but occasionally they can lead us to some very strange decisions. This second group of biases effectively represents information processing errors. They cover biases that result from the admission that we aren’t super computers capable of infinite dynamic optimisation.

When faced with uncertainty people will grasp at almost anything when forming opinions. In the classic experiment Tversky and Kahneman (1974) asked people to answer general knowledge questions such as what percentage of the UN is made up of African nations? A wheel of fortune with the numbers 1 to 100 was spun in front of the participants before they answered. Being psychologists Tversky and Kahneman had rigged the wheel so it gave either 10 or 65 as the result of a spin. The subjects were then asked if the answer was higher or lower than the number on the wheel, and also asked their actual answer. The median response from the group that saw the wheel present 10 was 25, and the median response from the group that saw 65 was 45! Effectively, people were grabbing at irrelevant anchors when forming their opinions. This is known as **anchoring**.

Think about this in the context of valuation. In the absence of any reliable information, past prices are likely to act as an anchor to current prices. Does it not strike you as strange that the average analysts price target is 28% above current market price? Too many DCFs are anchored around current market prices. I have even heard some analysts deliberately seek to arrive at a DCF target that is close to market price.

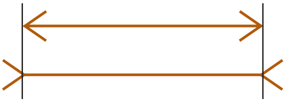
One way in which to overcome this bias is to turn the DCF on its head (reverse engineered). Take the market price and back out what it implies about future growth, then compare these with the forecasts. This should help mitigate the anchoring bias.

The other element to be aware of is relative valuation. All relative valuation measures should be ignored. It is simply far too easy for an analyst to fixate (anchor) on her sector average as the ‘correct’ value. For instance, in the past I have been asked by analysts to construct tables of valuations on criteria such as PE and Price to book across industries, so that the analyst can compare the stock under investigation with its peer group. This tells us nothing about the true ‘fair value’ of the equity.

The tendency to anchor provides our sixth rule **(6) Forget relative valuation, forget market price, work out what a stock is worth (use reverse DCFs).**

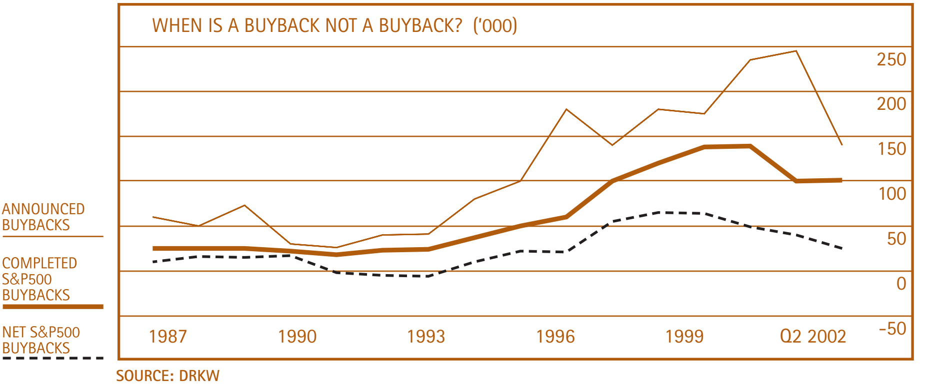
When information is presented to us, we aren't very good at seeing through how it is presented. We tend to take things at face value rather than drilling down to get to the detail. As an analogy consider the lines below, and which is longer?

Most people will go for the lower line. However, as the picture below makes clear, both lines are exactly the same length. We fail to see through the way in which the lines are presented. Yet when we make the frame transparent (ie. we add the vertical lines) it becomes immediately clear that both lines are exactly the same length. This inability to see through the way in which things are presented is called **narrow framing**.

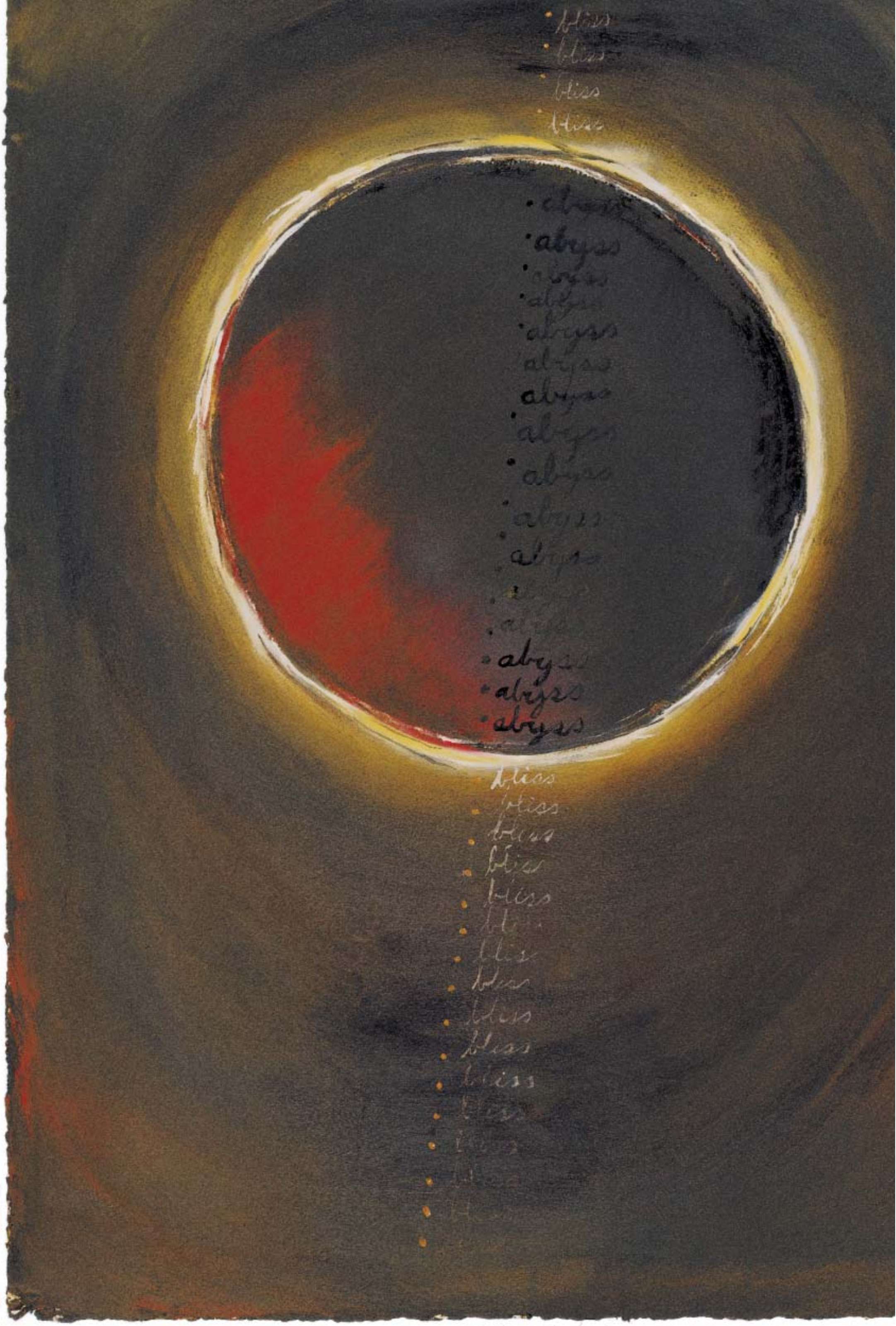


Let's think about an example from finance. My own favourite is buybacks. Given that we have promoted the importance of dividends in contributing to total returns, a common retort is that surely we have missed the point that buybacks have replaced dividends as a cash distribution mechanism amongst investors.

When most investors talk of buybacks they are referring to announced buybacks. However, that is of no interest to us. After all there is nothing to prevent a company from announcing a buyback but not carrying it through. Hence the very least we should examine is completed buybacks. But even that is not enough. Too many buybacks are related to attempts to offset issuance (via option plans) and



SOURCE: DRKW



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prevent dilution. These buybacks don't matter to me as an investor. I should only really care about net buybacks. The chart on the previous page shows the enormous gulf that appears when one starts to look at net rather than announced buybacks.

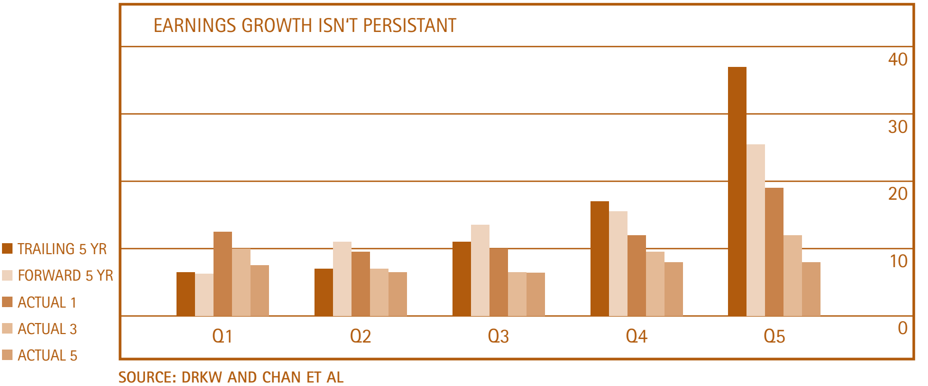
This kind of narrow framing generates our seventh rule **(7) Don't take information at face value, think carefully about how it was presented to you.**

Let us turn our attention to Linda. Linda is 31, single, outspoken, and very bright. She majored in philosophy at university, and as a student was deeply concerned with issues surrounding equality and discrimination. Is it more likely that Linda works in a bank, or is it more likely that Linda works in a bank and is active in the feminist movement?

Somewhat bizarrely many people go for the latter option. But this can't possibly be true. The second option is a subset of the first option, and a subset can never be larger than one of the contributing sets!

So what is happening? Well, people judge events by how they appear, rather than by how likely they are. This is called **representativeness**. In the example of Linda, people picking the option that Linda works in a bank and is active in the feminist movement are underweighting the base rate that there are simply more people who work in banks, than people who work in banks and are active in the feminist movement!

Representativeness has many applications in investment. For example, do investors think that good companies make good investments? If so this is a potential case of representativeness. A further example of representativeness is outlined in the chart below. It shows portfolios based around long term earnings growth forecasts for consensus analysts[2]. The first bar shows the per annum growth rate in the five years prior to expectation formation. It also traces out the earnings growth per annum in the 1, 3 and 5 years following the forecasts.



SOURCE: DRKW AND CHAN ET AL

[2] It draws on work by Chan et al (2002), the level and persistence of growth rates, Journal of Finance forthcoming and our own work.

The results show that analysts suffer representativeness twice over. Firstly, companies that have seen high growth in the previous five years are forecast to continue to see very high earnings growth in the next five years.

Secondly, analysts fail to understand that earnings growth is a highly mean reverting process over a five year time period. The base rate for mean reversion is very high. The low growth portfolio generates nearly as much long term earnings growth as the high growth portfolio. Effectively, analysts judge companies by how they appear, rather than how likely they are to sustain their competitive edge with a growing earnings base.

These mistakes lead us to our eighth rule **(8) Don't confuse good firms with good investments, or good earnings growth with good returns.**

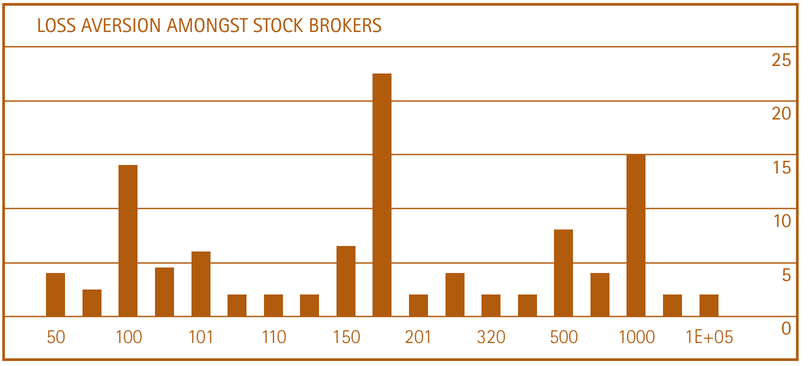
Our minds are not supercomputers, and not even good filing cabinets. They bear more resemblance to post-it notes which have been thrown into the bin, and covered in coffee, which we then try to unfold and read the blurred ink! In particular the ease with which we can recall information is likely to be influenced by the impact that information made when it went in. For instance, which is a more likely cause of death in the US, being killed by a shark attack, or being killed as a result of a lightning strike?

Most people go for shark attacks. Largely this is a result of publicity that shark attacks gain in the media, and the fact that we can all remember the film Jaws. In actual fact, the chances of dying as a result of a lightning strike are 30x greater than the chances of dying from a shark attack.

A less drastic example comes from Kahneman and Tversky (1973). They asked people the following: 'In a typical sample of text in the English language, is it more likely that a word starts with the letter k or that k is its third letter?'. Of the 152 people in the sample, 105 generally thought that words with the letter K in the first position were more probable. In reality there are approximately twice as many words with k as the third letter as there are words that begin with k. Yet because we index on the first letter, we can recall them more easily.

Think about this in the context of stock selection. How do you decide which stocks you are going to look at when you arrive at work in the morning? Is it because you read about them in the Financial Times? Or heaven forbid, that some broker sent you an email mentioning the stock, or some analyst wrote a research report on it? It is worth noting that Gadarowski (2001)[3] investigated the relationship between stock returns and press coverage. He found that stocks with the highest press coverage underperformed in the subsequent two years! Be warned all that glitters is not gold. **(9) Vivid easy to recall events are less likely than you think they are, subtle causes are underestimated.**

[3] S. Gadarowski (2001) Financial press coverage and expected stock returns, Cornell University Working Paper.



SOURCE: MONTIER (2002)

Our final bias beater is best explained by offering you the following bet. You are offered a bet on the toss of a fair coin, if you lose you must pay £100, what is the minimum amount that you need to win in order to make this bet attractive?

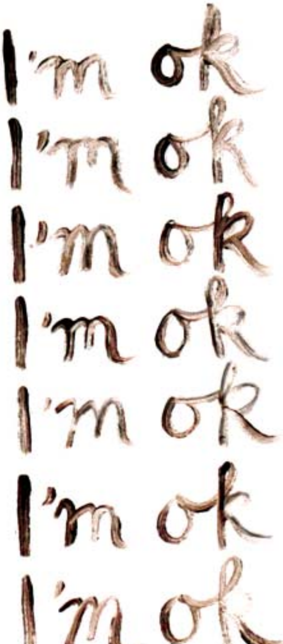
There are, of course, no right or wrong answers. It is purely a matter of personal preference. The most common answer is somewhere between £200-£250. That is to say that people feel losses around 2-2½ times more than they feel gains. The chart above shows the outcomes when I asked this question of a set of colleagues at a previous employer (still an investment bank).

The mean answer is around the £200 mark. There was also a considerable number of individuals who required massive compensation in order to accept the bet – perhaps they just didn't trust a strategist! It is noteworthy that some players would have accepted the bet for £50… it is giving nothing away when I tell you that the person who was willing to accept this sum was a tech analyst. This told me everything I needed to know about tech analysts' ability to value companies!

There is a serious point to all of this. People hate losses (**loss aversion**) and find them very uncomfortable to deal with in psychology terms. Because losses are so hard to face, we tend to avoid them whenever possible. For instance, a loss isn't perceived as a loss on some level so long as it is not realised. Therefore losses will be realised infrequently, in the hope that they become winners (over-optimism again!). This tendency to ride losers and sell winners is known as the disposition effect. Even if we are right (and most of the time we aren't) that our losers will become winners there will be better opportunities to put the trade on lower down, rather than riding the position all the way down. This generates our final bias beater **(10) Sell your losers and ride your winners.**

This isn't a comprehensive survey of biases and their impact. We haven't addressed any of the emotional aspects of investment or indeed any of the social aspects (such as herding). However, the rules we have set out should help guide us to better decisions. All too often when we present on behavioural finance, institutional investors think that it applies to private clients and not to them. This is surely a prime example of the illusion of knowledge creating over-confidence. At the end of the day, each and every fund manager is an individual too. They too will be subject to the biases outlined above.

Being aware of the mistakes we make is the first step. To really avoid them takes a great deal of practice. After all, how many of us can remember how to perform long division by hand? Without regular use skills recede in our minds, and we will continue to fall into the regular pitfalls outlined above. Perhaps the best defence of all is to design an investment process that deliberately seeks to incorporate best mental practice!



PLATINUM CAPITAL LIMITED

ABN 51 063 975 431

ANNUAL REPORT

2003

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Stock Exchange Listing
Ordinary Shares listed on the Australian Stock Exchange Limited
Ordinary Shares ASX Code: PMC

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

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CHAIRMAN'S REPORT

Investment Performance

In the Investment Manager's Report is a table showing how the share prices of various industry groupings performed over the three, six and twelve month periods to the end of June 2003. It shows a picture of a bear market that was widespread and persistent; in other words a market where there was nowhere to hide. In this context it is unsurprising, although nonetheless regrettable, that Platinum Capital's net asset value suffered a decline, albeit modest, of 2.3% pre-tax and 3.6% after allowing for all tax liabilities both realised and unrealised. This is in the context of the fall in our benchmark, the Morgan Stanley Capital Index of world shares, of 18.3% for the 12 months.

As has been the case in previous years' reports it is important to draw attention to the long-term investment performance of the Company since its inception in 1994. On a pre-tax basis the annualised return has been 17.3% compared to the return from the MSCI of 6.4%. Of interest, particularly to Australian shareholders is the comparable return from the Australian All Ordinaries Accumulation Index, which returned 4.7% pa over the nine years.

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

	1 YEAR	3 YEARS (COMPOUND PA)	5 YEARS (COMPOUND PA)	SINCE INCEPTION (9 YEARS) (COMPOUND PA)	SINCE INCEPTION (CUMULATIVE)
PCL	(2.33)	13.68	17.81	17.37	323.34
MSCI	(18.28)	(16.10)	(4.59)	6.41	74.94

SOURCE: PLATINUM & MSCI

Dividends

A final dividend of 10 cents is recommended, making a total of 15 cents for the full year, payable out of earnings retained in previous years and fully franked. As previously stated it is the policy of your Directors to smooth dividend payments over time. Shareholders will realise, however, that this is a policy not a guarantee and would have to be reviewed in the event of a sustained period of market weakness.

Corporate Governance

Following the release of the *ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations"* the Directors resolved to voluntarily comply with the guidelines in respect of reporting for this year. In addition it was resolved to establish an Audit Committee consisting of Peter Clarke, who will be the Chairman, Malcolm Halstead and myself. Mr Halstead is to serve until another independent non-executive Director is appointed to the Board and the Audit Committee, an event that needs to occur before 1 July 2005.

The Company's Corporate Governance Statement can be found in the body of the Annual Report.

Outlook for 2003/2004

This Report is being written at a time when most of the world's stock markets are well up from their low points at the start of the calendar year and some commentators are of the view that the bear market we have experienced since mid 2001 is at an end. Growth forecasts in a number of economies have been revised upwards. Dr Greenspan, in a speech on 15 July, was positively ebullient about America's growth prospects.

The Manager, in his report, is more circumspect, expressing some surprise at the strength of the recent market rallies and emphasising the uncertainties that still abound, especially in the United States. Importantly the Manager goes on to emphasise the need for a disciplined approach and a "focus on the larger trends".

Finally

Last year in his Report the outgoing Chairman, Michael Darling, confirmed his "admiration and respect" for the Manager. In my short period as Chairman I have come to appreciate the reality of Michael's remarks. Kerr Neilson and his colleagues are very good at what they do. So, for their efforts and for those of my Board colleagues I can express sincere appreciation.

Graeme Galt Chairman

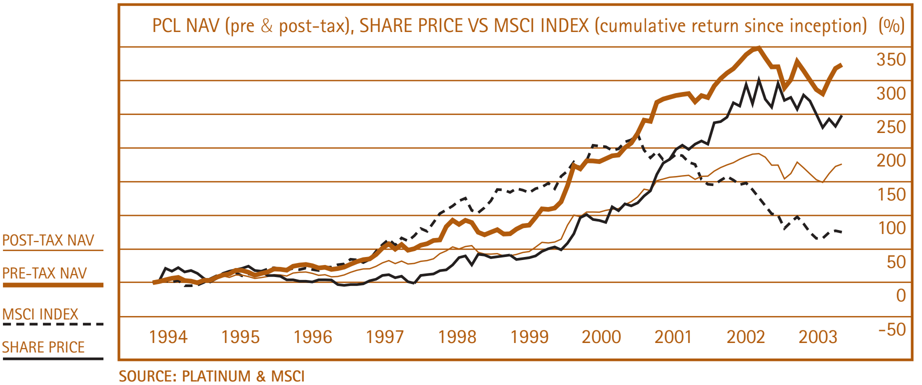
INVESTMENT MANAGER'S REPORT

Performance

Over the year, the performance of the Company was disappointing in absolute terms as the pre-tax net asset value fell by 2.3%, but good in comparison to the Morgan Stanley World Index which fell 18.3% over the same period. Over shorter periods, the value of the Company's portfolio rose by 11.4% over the last three months and 2.1% for the six months pre-tax with the Morgan Stanley World Index rising by 5.5% and falling by 6.7% respectively.

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

30 APRIL 2003	31 MAY 2003	30 JUNE 2003
147.52	153.50	155.46



SOURCE: PLATINUM & MSCI

After the harrowing sell-off in late February, associated with concerns about the invasion of Iraq and deteriorating economic news, returns from almost all asset classes in the first half of 2003 have been positive. True believers will now know that the Fed chairman does indeed have a magic wand! There will be sceptics like those left holding US dollars who have seen a good 14% drop (yoy) in their value relative to the euro or that barbarous relic, gold. This also gives a hint of the serious imbalances in the system, more of which later. But for now, investors are focusing on the ever cheapening trend of money worldwide, and are seeing nascent evidence that a general expansion is in the offing. The combination of these factors is inducing investors to seek remunerative places for their wealth other than cash.

The accompanying table shows how the various industry groupings fared in the last three, six and twelve month periods. Note that over the year it's all pretty glum, accentuated of course, by the 19% lift in the A$. Even in terms of the weak US$, the MSCI World Index is down 2.4%. Over the shorter span, there has been a clear move away from defensive consumer staples to those areas that benefit from discretionary spending.

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A$)

Sectors	3 months	6 months	1 year
Consumer Staples	-1.2%	-14.6%	-23.9%
Energy	-0.6%	-10.9%	-23.3%
Health Care	0.6%	-7.2%	-13.4%
Materials	2.4%	0.3%	-25.4%
Utilities	3.8%	-6.2%	-19.8%
Industrials	4.9%	-7.3%	-23.4%
Consumer Discretionary	7.9%	-4.6%	-19.9%
Information Technology	8.1%	-0.8%	-13.2%
Telecommunications	8.1%	-7.4%	-5.7%
Financials	9.3%	-5.6%	-20.0%

SOURCE: MSCI

By country there was an equally interesting dispersion, with the seemingly most risky countries showing the best returns. Pakistan, Argentina, Venezuela, Sri Lanka and Israel have all risen more than 50% in US$ over the last year, while the large markets and those seen as sensitive to imports have been almost flat to down by no more than 16% in US$ at the extreme.

Disposition of Assets

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

Region	Jun 03	Mar 03
Western Europe	33.5%	33.0%
Japan	17.5%	20.9%
Emerging Markets (incl. Korea)	14.2%	12.4%
North America	12.8%	14.8%
Australia	0.3%	1.8%
Cash	21.7%	17.1%
Shorts: Equities	21.6%	34.0%
Japanese Government Bonds	8.9%	0.0%

SOURCE: PLATINUM

BREAKDOWN OF PLATINUM PORTFOLIO BY INDUSTRY

Categories	Examples of Stocks	Jun 03	Mar 03
Cyclicals/Manufacturing	Schindler, Siemens, Bayer, Linde, Océ	22%	21%
Financials	Assicurazioni Generali, Allianz, Alleanza	11%	9%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	8%	4%
Medical	Yamanouchi, Takeda, Draegerwerk, Merck KGaA	8%	9%
Technology/Hardware	Agere Systems, Infineon Tech, Samsung, AMD	7%	8%
Gold and Resources	Barrick Gold, Newmont Mining, Gold Fields	7%	9%
Consumer Brands	Citizen Watch, Adidas Salomon, Lotte Confectionery	5%	6%
Telecoms	Hellenic Telecom, Ericsson, NTT	5%	8%
Retail/Services/Logistics	Hornbach	5%	8%

SOURCE: PLATINUM

Changes to the Portfolio

Earlier in the year we were aggressive buyers of various German multi-nationals which we believed had been grossly over-sold during the market collapse. The recent recovery in the share prices of these stocks, anything from 45% to 80% has been dramatic so we have reduced a number of our holdings and sold out of Metro completely.

There have been similar sharp movements in the prices of some IT and Microbiology stocks. We have switched out of Nvidia (share price +78%), National Semi (+16%), and Agere (+53%)

and replaced them with Infineon Tech (the ex-Siemens DRAM chip maker), Agilent and Toshiba. In bio-techs we bought Vertex Pharmaceutical, which has a broad pipeline of potential clinical products directed at alleviating diseases from HIV to rheumatoid arthritis. At the same time we sold Millenium which had doubled on the excitement of its cancer drug.

On Wall Street we have been buying stocks which will benefit from the devaluation of the US dollar, particularly Weyerhaeuser and International Paper. These companies appeal to us because of their large lumber holdings and the fact that the global paper industry has consolidated and is more hesitant to add productive capacity.

We have also begun adding to our holdings in Japan believing that the market has now bottomed, paying particular attention to the trading houses and the general insurance companies. The traders attract our attention on account of the repositioning of their enormous balance sheets towards more concentrated investment in specific areas such as natural gas and resources. They have always been credited with high quality management but until they recognised the need to change their business emphasis this potential lay fallow. We believe the gearing from these changes over the last five years will now become apparent. The insurance companies are in a similar position. Having made good and rising profits throughout the economic malaise of the last twelve years, the industry has consolidated. We have bought share in the two largest players, Millea and Mitsui Sumitomo. Apart from their underlying profitability we like the fact that we are paying below book value and for each yen of net asset value they have over two yen in share market exposure.

We have positioned Platinum to participate in India in what we believe will develop into a major bull phase. This market has swung up and down several times in recent years. Current ratings look particularly attractive as corporate balance sheets are relatively strong, a lot of surplus capacity has been absorbed and profits are rising strongly. The government is expanding the money supply in an attempt to hold the value of the rupee steady against the US dollar and the banks are aggressively promoting consumer lending. We have acquired a range of companies from the State Bank of India and other recently privatised banks, to TV content and delivery provider ZEE TV, to the truck and car manufacturer, Tata Engineering.

Shorting

Being short of US equities has been an unprofitable exercise for the last six months. The injection of liquidity has reinvigorated even the most dubious financial intermediaries and provided renewed scope for earnings manipulation by the unscrupulous. We have responded by cutting our exposure but our speed of response was well short of optimal.

On the other hand, our short position in Japanese government bonds (JGBs) is working well. At their peak in price, JGBs yielded only about 0.5% for 10 years. They have subsequently fallen back to offer a yield of 1.1%. The sensitivity of the prices of these 10 year bonds to a 1% shift in yields is around 6.5% so since setting the position we have gained around 3%.

Currency

We remain principally hedged into A$, 59%, and own euros, Swiss francs, yen and some Korean won. Although the US$ may show some resilience in the short term, we have no intention of owning more US$.

Commentary

Since 2001 we have been writing about the three phases of a bear market and regard this most recent rally as part of this traditional pattern rather than the start of a major new bull phase in Western markets. Valuations are still high, particularly in the US, whilst the economic growth outlook is not exciting and the prospects for corporate earnings are cloudy.

It is worth considering the background. In the US an expansionary phase for corporate profits has extended back over 20 years with only brief interruptions. There have been two driving forces behind this phenomenal upsurge.

Firstly, there has been an enormous increase in consumer spending. The increase has been substantially in excess of economic growth, powered by a reduction in the savings ratio to zero or slightly negative. The main lending mechanism to consumers has been housing loans where (despite rising housing prices) owner equity levels have in aggregate fallen to record low levels. There has also been a willingness to lend unsecured to non-home owners (including those with poor credit records) and on automobiles. (Loans and leases secured by automobiles have shown startling growth and now total approximately US$1.1 trillion – or about US$10,000 per household.) Much of the mortgage and other debt has been securitised and is ultimately funded by foreigners.

Secondly, beginning with the Reagan tax cuts and defence build-up (and with a brief interregnum late in the 1990s), the US Government has borrowed at rates unprecedented outside wartime. Many of these borrowings are held by foreigners. The spending (and to some extent the lower tax rates) have been a boost to the economy – some of which has resulted in higher corporate profits.

After tax corporate profits in aggregate have risen from 3-4 per cent in the early 1980s to levels of approximately 6 per cent. (These levels are particularly high relative to history if you were to adjust historic depreciation rates for inflation.)

Further – the growing profit share has given the impression to investors that profits *"normally increase substantially faster than GDP"*. This is of course impossible – but it's widely believed and acted upon. (Most companies appear to have earnings per share growth targets in double digits – something which suggests that individually they believe it is possible for them to beat the average.) We believe that investors perception about equities and profit growth are conditioned on the experience of the past two decades (rather than the last two years in which after-tax corporate profits have fallen to about 5 per cent of GDP). The last time a dominant economic power faced serious new "global" challenges, namely Britain in the last quarter of the 19th century, UK companies suffered intense margin pressure as cheap goods came in from abroad and export markets dried up.

Expanding asset prices (both housing and equities) have been further supported by falling interest rates. Since the early 1980s interest rates have fallen fairly continuously (there were rises in the late 1980s and again in 1994). The rate on US fixed rate mortgages has fallen from about 15 per cent to the current 6 per cent. These mortgages have an option feature which allows people to refinance any time interest rates fall sufficiently – either drawing cash out and keeping their payments the same or reducing their payment. Either way the lower rates have sharply increased the ability of consumers to spend and their willingness to pay up for houses.

Lower interest rates have had similar effects on equity valuations. However with wholesale short-dated interest rates at approximately 1 per cent (and longer dated rates below

4 per cent) we do not believe that there is much room to expand equity valuations through further reductions of interest rates.

Massive borrowing by the US has been made possible by a high level of personal savings in Asian countries in the context of a paucity of domestic investment opportunities by the near certainty of making a profit when holding steadily appreciating dollars and by the Mercantilist-type financial policies of those overseas governments who have paid more attention to the achievement of positive trade balances than to facilitating increased domestic consumption. If now we are to have a falling US dollar it will doubtless encourage exports in the medium term but the immediate effect will be to discourage foreign purchases of US bonds. The US government may be obliged to either cut spending or increase interest rates, ugly prospects both!

The economies of Continental Europe have experienced lesser levels of over-heating but their predominantly social democratic political philosophy has not been friendly to enterprise. There are a few encouraging signs as governments are starting to attack "feather-bedding" in the public sector and the recent IG Metall strike in Germany was abandoned to the considerable embarrassment of the Union when some of its members walked across picket lines. On the other hand the EU faces a pressing short term problem caused by the reluctance of the ECB to reduce interest rates and the consequent rise in the price of the euro.

In contrast to these difficulties in the West we see hopeful signs in Asia. Central banks are pursuing more accommodative policies, the over-investment in industrial capacity in the mid 1990s is being absorbed and debt repayments have strengthened corporate balance sheets. The really big boost to Asia will not come until consumers become less defensive and government become less mercantilist. We don't know when either of these things will occur on a large scale but see encouraging early signs.

The difficulties of investing in Asia remain substantial. Company accounts are opaque, corporate governance is sometimes lax, government intervention is a constant worry. But while we see high valuations in the West and low valuations in the East, at least a modest shift in portfolio balance looks sensible. Careful stock selection is of even greater importance than usual.

A wild card emerging from the above analysis is the position of gold. In an uncertain world one thing more likely than most is currency instability. Further weakness in the US dollar would make the euro look overvalued. It would also make it increasingly difficult for those Asian and South America countries which have fixed exchange rates against the greenback to maintain the parity. There have already been quite excited calls for the Chinese to revalue the renminbi. In this scenario a lack of good alternatives could find gold emerging as a fashionable store of value. Its obvious disadvantage, its lack of yield, would not matter much in a low yield world.

Special Report – India

Platinum has monitored India since the early 1990s and two analysts have just spent nine days visiting the sub-continent, talking to government agencies and a range of companies.

On earlier visits we were concerned about valuations and the political will of the government to embrace change. Economic reform has been tantalisingly slow but despite this, the economy has grown faster than most through the nineties at around 5% pa. Under the present coalition headed by the BJP, the pace has accelerated. Privatisation of State banks and industrial enterprises is being accompanied by deregulation of State run industries. Import restrictions have been removed and tariffs reduced. Like other mixed economies, the government is faced with awkward choices as it removes distortions in one area, only to throw-up hardships elsewhere. In a working, if chaotic, democracy, where politicians are not always reliable, the outcry from these reforms can be thunderous. In several ways it reminded us of our experiences in Latin America in the early nineties. While still in the early stages and recognising that bad habits die slowly, the gains to efficiency are already clear. Most important of all is that once companies become truly private, the patronage enjoyed by politicians and top bureaucrats gradually withers.

An important element of deregulation is the opening up of the ports to private enterprise and the road building initiative. The so-called golden quadrilateral, to link up the great cities of Mumbai, Chennai (Madras), Calcutta and Delhi is due for completion in late 2004. The entire route of 5,846 kms will then be a four lane highway (sans cows), and will completely transform the movement of goods and people within the sub-continent. This is being complemented by the North-South/East-West corridor which is due for completion in 2007.

Evidence of obstruction to "Nirvana" is seen everywhere and probably the worst offenders are the ruling elite. Clearly many have benefited from influence peddling, though there is corruption at every level, and of great concern is weak tax enforcement. State expenditure accounts for approximately 20% of GNP, which is about twice what is raised by taxes. Fortunately there is a high savings rate which allows this deficit to be funded out of bond sales but it inhibits the Government's ability to help redistribute income. Continuation along the current course looks irreversible, but so it must be for our investment case to yield the enormous rewards that we hope will await long term investors.

Conclusion

We have been surprised at the continuing vigour of the stock market rallies in the first week of July. Selling pressure has completely subsided and money is evidently moving out of bonds into shares. The prospect of the Fed sitting on interest rates for some while has fired up investor's belief that the economy will respond positively.

It is probable that our shorts and currency positioning will detract from our performance in the short term although hopefully, our large exposure to Asia, and Japan in particular, will partially compensate. We could, it is true, attempt to fine-tune our way out of short term reverses but our experience is that it is wiser to concentrate on fundamentals and long term trends even if that involves a little pain.

Kerr Neilson Managing Director

2003
FINANCIAL STATEMENTS
PLATINUM CAPITAL LIMITED

SHAREHOLDER INFORMATION

Substantial Shareholders

The Company's Register of Substantial Shareholders, prepared in accordance with section 671B of the Corporations Act 2001, recorded the following information as at 31 July 2003.

NAME	NUMBER OF SHARES	CLASS OF SHARE
Questor Financial Services Limited	2,577,307	ordinary

Distribution of Securities

	CLASS OF EQUITY SECURITY
(i) Distribution schedule of holdings	Ordinary
1 – 1000	920
1,001 – 5,000	5,095
5,001 – 10,000	2,857
10,001 – 100,000	2,509
100,001 and over	63
Total number of holders	11,444
(ii) Number of holders of less than a marketable parcel	145
(iii) Percentage held by the 20 largest holders	11.51%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of equity securities as at 31 July 2003 are listed below:

	NUMBER OF SHARES	%
RBC Global Services Australia	2,444,573	2.15
Questor Financial Services Limited	1,606,056	1.41
Cox Bros Coffs Harbour Pty Limited	1,195,893	1.05
Frank Hadley Pty Ltd	801,828	0.70
National Nominees Limited	598,691	0.53
Platinum Asset Management Limited	590,231	0.52
UBS Warburg Private Clients Nominees Pty Limited	539,166	0.47
Austair Pilots MBF Nominee Co Pty Ltd	500,000	0.44
Nizin Holdings Pty Limited	499,061	0.44
J P Morgan Nominees Australia Limited	464,052	0.41
Feboco Investments Pty Limited	455,993	0.40
Dr Russell Kay Hancock	449,915	0.40
Mr Greg Maughan	445,069	0.39
Questor Financial Services Limited	443,533	0.39
Tower Trust Limited	422,920	0.37
Nizin Holdings Pty Limited	392,147	0.34
Frank Hadley Pty Ltd	351,225	0.31
Queens Hill Pty Limited	303,394	0.27
Mr Lloyd James Christie	302,448	0.27
Westons Securities Limited	288,473	0.25

Voting Rights

Ordinary Shares:

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

Financial Calendar

Annual General Meeting	23 October 2003
Ordinary Shares trade Ex-Dividend	27 October 2003
Record (books close) date for Final dividend	31 October 2003
Final dividend paid	10 November 2003

These dates are indicative and may be changed.

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 – 1,968 Total brokerage paid – $499,408.

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 borrowing's 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 2003 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.

Peter Clarke	(Non-Executive Director)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Director)
Malcolm Halstead	(Director and Secretary)

Michael Darling was a Non-Executive Director and Chairman from the beginning of the financial year until his resignation on 24 October 2002.

Graeme Galt was appointed a Non-Executive Director on 25 July 2002 and Chairman of the Board of Directors on 24 October 2002.

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 loss of the Company for the year was $2,274,000 (2002: profit $19,916,000) after income tax expense of $3,653,000 (2002: $12,231,000).

Dividends

Since the end of the financial year, the Directors have recommended the payment of a 10 cents per share ($11,379,987) fully franked dividend payable to Shareholders to be paid on 10 November 2003 out of retained profits as at 30 June 2003.

A fully franked interim dividend of 5 cents per share ($5,636,948) was paid on 28 February 2003.

A fully franked final dividend of 10 cents per share ($11,080,813) for the year ended 30 June 2002 was paid on 8 November 2002.

Review of Operations

Operating Results

The operating profit before tax was $1,379,000 (2002: $32,147,000) and a loss of $2,274,000 (2002: profit $19,916,000) after tax.

Taxation

Income tax expense for the year was $3,653,000 (2002: $12,231,000).

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

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

	FEE $	SUPERANNUATION $	TOTAL $
GW Galt	37,435	3,369	40,804
PW Clarke	30,000	2,700	32,700
MG Darling	12,565	1,131	13,696
	80,000	7,200	87,200

Directors' Interests in Contracts

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

Insurance of Officers

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

Graeme W Galt MBA, BCom, FAICD
Independent Non-Executive Director and Chairman since 24 October 2002. (Age 63) Member of Audit Committee.

Mr Galt has extensive experience in senior line and staff roles, and in consulting 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, is a Director of Asian Express Airlines Pty Limited and Principal of Templeton Galt.

Mr Galt is active in community, cultural and sporting activities and is currently a Director of Bangarra Dance Theatre and Chairman of Centre Circle.

Michael G Darling BA Law (Oxon), MBA (Harvard)
Independent Non-Executive Director and Chairman to 24 October 2002. (Age 57)

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
Independent Non-Executive Director for three years. (Age 67) Chairman of Audit Committee.

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

Other Directorships include Canning Energy Limited and Climax Mining Limited.

Kerr Neilson BCom, ASIP
Managing Director for nine years. (Age 53)
Relevant interest in 893,626 shares in the Company.

Appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Asset Management, the Company's Investment Manager.

Mr Neilson is an experienced investment analyst and fund manager. Prior to Platinum Asset Management, he was an Executive Vice President at Bankers Trust Australia Limited.

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

Andrew M Clifford BCom(Hons), ASIA
Director for nine years. (Age 37)
Relevant interest in 666,079 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. Prior to Platinum Asset Management, Mr Clifford was a Vice President at Bankers Trust Australia Limited.

Malcolm Halstead ACA
Finance Director and Company Secretary for nine years. (Age 45) Member of Audit Committee. Relevant interest in 650,910 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. Prior to Platinum Asset Management, Mr Halstead was a Vice President at Bankers Trust Australia Limited. Earlier 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 2003 and attended by each Director.

	BOARD MEETINGS	
	HELD WHILE A DIRECTOR	ATTENDED
MG Darling (Resigned 24 October 2002)	2	2
PW Clarke	6	5
GW Galt (appointed 25 July 2002)	6	6
WK Neilson	6	5
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.

GW Galt
Director

WK Neilson
Director

Sydney
6 August 2003

CORPORATE GOVERNANCE STATEMENT

The Company is a listed investment company. Its shares are traded on the Australian Stock Exchange (ASX).

The objective of the Company is to seek long term capital growth through utilising the skills of the investment manager, Platinum Asset Management.

Other than its Directors, the Company has no employees. It has no premises, plant or equipment or other physical assets. The Company's day-to-day affairs and the investment of its funds are managed by Platinum Asset Management in accordance with a Management Agreement.

It is the responsibility of the Directors to ensure that Platinum Asset Management is performing its duties in a skilful and diligent manner, that it employs qualified and experienced staff and that it operates appropriate risk monitoring and compliance procedures.

The Company's main corporate governance practices are set out below and, unless otherwise stated, were in place for the entire year.

The Board of Directors

The Board operates in accordance with its Charter, which is available on the Company's web site: www.platinumcapital.com.au.

The Charter covers the following.

Board Composition

- The Board comprises an equal number of Executive and independent Non-Executive Directors, excluding the Managing Director (MD), who is appointed in accordance with the Company's Constitution and the Management Agreement with Platinum Asset Management.
- The Chairman is an independent Non-Executive Director.
- The Board undertakes an annual performance review and considers the appropriate mix of skills required to ensure its effectiveness.

The Board has determined that given the size and specialised nature of the Company, a majority of independent Non-Executive Directors is unnecessary.

Responsibilities

- Overseeing and monitoring Platinum Asset Management's compliance with the investment management agreement.
- Monitoring financial performance including approval of statutory financial reports and liaison with the Company's auditors.
- Identifying, controlling and monitoring significant risks faced by the Company including those associated with its compliance obligations and ensuring appropriate reporting mechanisms are in place.

Board Members

The Board aims to ensure that:

- its members have an appropriate balance between those with investment management experience and those with an alternative perspective; and
- the size of the Board is conducive to effective discussion and efficient decision making.

Directors' details are set out in the Directors' Report.

Directors' Independence

A Director is independent if he or she:

- is not a substantial Shareholder of the Company or an officer of, or otherwise associated directly with, a substantial Shareholder of the Company;
- has not been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment within the last three years;
- is not a principal of a material professional adviser to the Company, or an employee materially associated with the service provider within the last three years;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company other than as a Director of the Company;
- has not been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Materiality is judged on both a quantitative and qualitative basis. An amount of over 0.5% of the Company's turnover is considered material for these purposes.

In addition, a transaction of any amount or relationship is deemed material if knowledge of it impacts the shareholders' understanding of the Director's performance.

Term of Office

The Company's Constitution specifies that all Directors, other than the MD, must retire from office no later than the third Annual General Meeting (AGM) following their last election and that one-third of the Directors are to retire from office at each AGM. Where eligible, a Director may stand for re-election.

Chairman and MD – Division of Function

The Chairman is responsible for leading the Board, ensuring that the Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings. The MD is responsible for ensuring that Platinum Asset Management complies with the investment management contract.

The policy of the Board is not to have the same person as Chairman and MD.

Commitment

The number of meetings held and attended by each Director is disclosed in the Directors' Report.

Non-Company related commitments of the Non-Executive Directors are considered by the Board prior to each Director's appointment and are reviewed as part of the annual performance review.

Independent Professional Advice

Directors may seek independent professional 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.

Annual Performance Review

The Board undertakes a performance review annually and considers the appropriate mix of skills required to maximise its effectiveness.

Independent professional advice may be sought. Executive Directors are not remunerated by the Company.

Executive Directors review and determine the remuneration of the Non-Executive Directors. Independent professional advice may be sought.

The Board remunerates at market rates commensurate with the responsibilities borne by the Non-Executive Directors.

Directors' fees are disclosed in the financial statements.

Corporate Reporting

The MD and Finance Director have made the following certifications to the Board:

- the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board adopted this reporting structure for the year ended 30 June 2003.

Board Committees

The Board has determined that given the size and specialised nature of the Company nomination and remuneration committees are unnecessary.

The Board deals with all matters that would otherwise be dealt with by such committees. Independent professional advice may be sought.

Audit Committee

The Board appointed an audit committee on 12 June 2003. The audit committee consists of two independent Non-Executive Directors and an Executive Director, namely:

Peter W Clarke	(Chairman and independent Non-Executive Director)
Graeme W Galt	(Independent Non-Executive Director)
Malcolm Halstead	(Executive Director)

Details of Directors' qualifications and experience are set out in the Directors' Report. The audit committee has appropriate financial expertise.

The audit committee operates in accordance with a Charter which is available on the Company's web site. Its main responsibilities to the Board include:

- recommending the appointment of the external auditor and the audit fee;
- ensuring that the external auditor is competent and independent;
- ensuring that the external auditor has full access to information and that no unacceptable management or other restrictions are placed on it;
- reviewing the draft half-yearly and year-end financial statements prior to recommending their adoption by the Board;
- monitoring the Company's compliance with its statutory obligations;
- reviewing and monitoring the adequacy of management information and internal control systems; and
- ensuring that any query from Shareholders relating to such matters are dealt with expeditiously.

External Auditors

The Board appoints external auditors who demonstrate quality and independence. PricewaterhouseCoopers were appointed as the external auditors in 1994. PricewaterhouseCoopers rotate audit partners engaged on listed companies' audits at least every seven years. From 1 July 2003, PricewaterhouseCoopers will provide an annual declaration of their independence to the audit committee.

The performance of the external auditor is reviewed annually by the audit committee.

Risk Assessment and Management

The Board ensures there are adequate policies in relation to risk oversight and management and internal control systems.

The Company's policies are designed to ensure operational, legal and financial risks are identified, assessed, addressed and monitored.

A summary of these policies is available on the Company's web site.

Code of Conduct

The Board has adopted a Code of Conduct (the Code) which is based upon the Australian Institute of Company Directors' Code of Conduct.

In summary, the Code requires that at all times the Directors act with the utmost integrity, objectivity and in compliance with the law and the Company's policies.

The purchase and sale of shares in the Company by Directors is only permitted during a period of five business days following the release of the monthly net asset value appearing in the *Australian Financial Review*. Additional blackout periods are enforced as necessary (e.g. during an on-market buy-back of shares on issue). Any and all changes to Directors' shareholdings are reported to the ASX.

Platinum Asset Management imposes the same rules on itself and its employees.

Copies of the Code and the Company's trading policy are available on the Company's web site.

Continuous Disclosure and Shareholder Communication

The Company Secretary is responsible for communications with the ASX. The role includes ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and over-seeing and coordinating information disclosure to the ASX, Shareholders, the media and the public.

Shareholders receive a copy of the Company's annual report together with a quarterly investment report from Platinum Asset Management.

The external auditor attends the AGM to answer any Shareholder questions in relation to the annual audit and preparation and content of the auditor's report.

A summary of the Company's continuous disclosure policy and communications plan is available on the Company's web site.

STATEMENT OF FINANCIAL PERFORMANCE year ended 30 June 2003

	NOTES	2003 $'000	2002 $'000
Revenue from Ordinary Activities			
Dividends		**2,858**	3,577
Interest		**399**	654
Net realised gains/(losses) on sale of equities/derivatives		**425**	40,060
Net realised gains/(losses) on currency hedging transactions		**9,711**	11,104
Net unrealised gains/(losses) on revaluation of monetary items		**8,222**	(980)
Reversal of prior period's provision for permanent diminution in the value of investments		**12,353**	2,446
Provision for permanent diminution in the value of investments		**(24,461)**	(12,353)
Net realised gains/(losses) on overseas bank accounts		**(2,783)**	(1,902)
Total Revenue from Ordinary Activities		**6,724**	42,606
Expenses			
Management fee		**2,573**	3,000
Performance fee		**1,486**	6,414
Custody		**153**	210
Share registry		**239**	200
Directors' fees		**87**	73
Auditor's remuneration			
– Auditing and review ($37,500, 2002: $43,500)		**38**	44
– Taxation services ($17,735, 2002: $19,420)		**18**	19
Goods and Services Tax		**–**	(212)
Withholding tax on foreign dividends		**333**	407
Other expenses		**418**	304
Total Expenses		**5,345**	10,459
Profit/(loss) from ordinary activities before related income tax expense		**1,379**	32,147
Income tax expense	2	**3,653**	12,231
Profit/(loss) from ordinary activities after related income tax expense	8	**(2,274)**	19,916
Earnings Per Share (cents per share)	7	**(2.02)**	18.24

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

STATEMENT OF FINANCIAL POSITION as at 30 June 2003

	NOTES	2003 $'000	2002 $'000
Investments	1(c), 3	**170,902**	194,383
Current Assets			
Cash at bank	9(a)	**196**	212
Receivables	4	**1,209**	2,279
Income tax receivable		**6,385**	–
Deferred tax assets		**57**	470
Total Current Assets		**7,847**	2,961
Total Assets		**178,749**	197,344
Current Liabilities			
Payables	5	**2,981**	7,972
Dividend	14	**–**	11,081
Current tax		**–**	2,561
Deferred tax		**2,864**	789
Total Current Liabilities		**5,845**	22,403
Net Assets		**172,904**	174,941
Equity			
Contributed equity	6	**121,314**	115,441
Retained profits	8	**51,590**	59,500
Total Equity		**172,904**	174,941

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

STATEMENT OF CASH FLOWS year ended 30 June 2003

	NOTES	2003 $'000 INFLOWS (OUTFLOWS)	2002 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Dividends received		**2,779**	3,618
Interest received		**410**	637
Cost of purchases of investments and currencies		**(92,364)**	(138,426)
Proceeds from sale of investments and currencies		**123,330**	174,655
Management and performance fees paid		**(9,027)**	(7,108)
Other expenses		**(1,263)**	(1,084)
Income tax paid		**(10,112)**	(12,185)
Net cash inflow/(outflow) from operating activities	9(b)	**13,753**	20,107
Cash flows from financing activities			
Proceeds from issue of shares		**5,873**	5,551
Dividends paid		**(16,686)**	(16,242)
Net cash outflow from financing activities		**(10,813)**	(10,691)
Net increase/(decrease) in cash held		**2,940**	9,416
Cash held at the beginning of the financial year		**26,743**	17,275
Effects of exchange rate changes on cash		**(452)**	52
Cash held at the end of the financial year	9(a)	**29,231**	26,743

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

NOTES TO THE FINANCIAL STATEMENTS 30 June 2003

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, Urgent Issues Group Consensus Views and the Corporations Act 2001.

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

As a result of applying the new accounting standard AASB 1044 (Provisions, Contingent Liabilities and Contingent Assets) for the first time, certain liabilities have been reclassified as in note 1(l).

(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 carried 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.

(l) Change in Accounting Policy for Providing for Dividends

In accordance with AASB 1044 (Provisions, Contingent Liabilities and Contingent Assets), a provision can only be made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year, but not distributed at balance date.

1. Summary of Significant Accounting Policies (continued)

In previous periods, Platinum Capital Limited recorded a provision for dividends to be paid out of retained profits at the end of the period where the dividend was proposed between the end of the period and the completion of the financial report. The restatement of retained profits, total dividends provided for or paid during the financial year and current liability for dividend are set out below to show the information that would have been disclosed had the new accounting policy always been applied.

	2003 $'000 (RESTATED)	2002 $'000 (RESTATED)
Restatement of retained profits		
Retained profits at the end of the previous financial year	**59,500**	56,158
Change in accounting policy for providing for dividends	**11,081**	10,802
Restated retained profits at the beginning of the financial year	**70,581**	66,960
Net profit attributable to members	**(2,274)**	19,916
Total available for appropriation	**68,307**	86,876
Dividends provided for or paid	**(16,717)**	(16,295)
Restated retained profits at the end of the financial year	**51,590**	70,581
Restatement of total dividends provided for or paid		
Previously reported total dividends provided for or paid during the financial year	**16,717**	16,574
Adjustment for change in accounting policy	**–**	(279)
Restated total dividends provided for or paid during the financial year	**16,717**	16,295
Restatement of current liabilities – provisions		
Previously reported carrying amount at the end of the financial year	**–**	11,081
Adjustment for change in accounting policy	**–**	(11,081)
Restated carrying amount at the end of the financial year	**–**	–

2. Income Tax	2003 $'000	2002 $'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:		
Profit from ordinary activities before income tax expense	**1,379**	32,147
Prima facie income tax on operating profit/(loss) at 30%	**414**	9,644
Tax effect on permanent differences which:		
Reduce Tax Payable		
– Allowable credits	**(396)**	(381)
Future income tax benefit not recognised	**3,632**	2,972
Under/(over) provision of prior period tax	**3**	(4)
Income tax expense	**3,653**	12,231
Income tax expense comprises:		
Current income tax provision	**1,162**	12,178
Deferred income tax provision	**2,075**	357
Future income tax benefit	**413**	(300)
Under/(over) provision of prior period tax	**3**	(4)
	3,653	12,231

Future Income Tax Benefit

Potential future income tax benefits of $7,338,436 (2002: $3,705,900) arising from permanent diminution in the value of investments of $24,461,452 (2002: $12,353,000) 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.

3. Investments	2003 $'000 NET FAIR VALUE	2003 $'000 COST/CARRYING VALUE	2002 $'000 NET FAIR VALUE	2002 $'000 COST/CARRYING VALUE
Listed and non-listed securities	**134,059**	**134,023**	175,595	168,247
Currency hedges	**7,844**	**7,844**	(395)	(395)
Cash on deposit note 9(a)	**29,035**	**29,035**	26,531	26,531
Total Investment Portfolio note 11	**170,938**	**170,902**	201,731	194,383

4. Receivables	2003 $'000	2002 $'000
Current		
Proceeds on sale of investments	**923**	2,111
Accrued dividends	**166**	87
Accrued interest	**8**	19
Prepayments	**78**	50
Goods and Services Tax	**34**	12
	1,209	2,279

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:

Hong Kong dollar	**1**	25
Japanese yen	**6**	1,206
Indian rupee	**35**	–
Euro dollar	**114**	36
Danish krone	**150**	–
Canadian dollar	**1**	–
US dollar	**784**	938
	1,091	2,205

5. Payables

	2003 $'000	2002 $'000
Current		
Payables on purchase of investments	**833**	937
Trade creditors (unsecured)	**1,961**	6,879
Unclaimed dividends payable to Shareholders	**187**	156
	2,981	7,972

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:

	2003 $'000	2002 $'000
US dollar	**352**	381
Swedish kroner	**–**	320
Japanese yen	**–**	236
Indian rupee	**481**	–
	833	937

6. Contributed Equity

		2003 QUANTITY	2003 $'000	2002 QUANTITY	2002 $'000
Opening balance		**110,808,132**	**115,441**	108,014,141	109,890
Dividend reinvestment plan	9-Nov-01	**–**	**–**	1,860,756	3,610
Dividend reinvestment plan	28-Feb-02	**–**	**–**	933,235	1,941
Dividend reinvestment plan	8-Nov-02	**1,930,837**	**3,900**	–	–
Dividend reinvestment plan	28-Feb-03	**1,060,905**	**1,973**	–	–
Closing Balance		**113,799,874**	**121,314**	110,808,132	115,441

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

7. Earnings Per Share	NOTES	2003	2002
Basic earnings per share – cents per share		**(2.02)**	18.24
Diluted earnings per share – cents per share		**(2.02)**	18.24
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share		**112,403,494**	109,217,968

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		**59,500**	56,158
Adjustment resulting from change in accounting policy for providing for dividends		**11,081**	–
Net profit/(loss)		**(2,274)**	19,916
Dividends provided for or paid	14	**(16,717)**	(16,574)
Retained earnings at the end of the financial year		**51,590**	59,500

9. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

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

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

Cash at bank*	**196**	212
Cash on deposit** note 3	**29,035**	26,531
	29,231	26,743

* Includes $187,000 (2002: $156,000) held in respect of unclaimed dividends on behalf of Shareholders.

** Includes $12,820,000 (2002: $14,300,000) 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.

9. Notes to the Statement of Cash Flows (continued)

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 bears floating interest rates in the range of 0.25% to 4.00% (2002: 0.50% to 4.00%).

International and Australian deposits at call bear floating interest rates in the range of 1.00% to 4.65% (2002: 1.00% to 4.60%).

International deposits and margin calls at derivative exchanges bear floating interest rates in the range of 1.00% to 2.50% (2002: 1.00% to 4.60%).

	2003 $'000	2002 $'000
(b) Reconciliation of Net Cash from Operating Activities to Operating Profit/(Loss) after Income Tax		
Operating profit/(loss) after income tax	**(2,274)**	19,916
Decrease/(increase) in investment securities and currency hedges	**25,985**	(5,753)
(Increase)/decrease in cash due to exchange rate movements	**452**	(52)
Decrease/(increase) in settlements receivable	**1,188**	2,889
Decrease/(increase) in dividends receivable	**(79)**	41
Decrease/(increase) in interest receivable	**11**	(17)
Decrease/(increase) in GST receivable	**(22)**	351
Decrease/(increase) in income tax receivable	**(6,385)**	–
Decrease/(increase) in prepayments	**(28)**	(35)
(Decrease)/increase in accrued expenses	**(4,918)**	1,951
(Decrease)/increase in settlements payable	**(104)**	771
(Decrease)/increase in income tax payable	**(2,561)**	(12)
(Increase)/decrease in future income tax benefit	**413**	(300)
Increase/(decrease) in deferred income tax	**2,075**	357
Net Cash from Operating Activities	**13,753**	20,107

10. Statement of Net Asset Value	2003 $'000	2002 $'000
Taking Investments at Market Value* and Providing for Realised and Unrealised Taxes		
Net Asset Value per Statement of Financial Position (Historical cost basis)	**172,904**	174,941
Add:		
Revaluation of investments	**36**	7,348
Proposed dividends	**–**	11,081
Future income tax on revaluation of investments	**1,106**	2,380
Deferred income tax on movements in unrealised monetary items	**2,864**	–
Net Asset Value	**176,910**	195,750
Net Asset Value – cents per share	**155.46**	176.65

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

11. Investment Portfolio

	QUANTITY	2003 NET FAIR VALUE $'000
JAPAN		
Alpine Electronics	90,000	1,659
Canon	16,000	1,091
Citizen Watch	167,000	1,332
Credit Saison	102,700	2,501
Denso	131,000	3,084
Fanuc	13,800	1,016
Fujirebio	33,500	377
JGB Future – Sold Short	(9)	342
Matsushita Electric Industrial	143,000	2,103
Millea Holdings	140	1,590
NGK Spark Plug	72,000	750
Nikkei 225 – Bought Long	34	34
Nintendo	3,900	421
Nippon Sheet Glass	326,000	1,452
Nippon Television	4,700	832
Sky Perfect Communications	1,444	1,467
SMFG Finance – Preferred	53	1,831
Sony	15,000	627
Takeda Chemical	42,400	2,323
TDK	17,000	1,247
Tenma	4,900	62
Toshiba	192,000	981
Ushio Denki	98,000	1,685
Yamanouchi Pharmaceutical	28,900	1,119
		29,926

11. Investment Portfolio (continued)	QUANTITY	2003 NET FAIR VALUE $'000
OTHER ASIA		
Hong Kong		
Beijing Capital International Airport – H	3,123,000	1,127
Beijing Enterprise Holdings	40,000	49
China Mobile Ltd HK	64,200	224
Hutchison Whampoa	75,000	677
Shanghai Industrial Holdings	141,000	295
Travelsky Technology – H	701,000	699
		3,071
Indonesia		
PT Lippo E – Net	5,907,000	42
Unilever Indonesia	150,000	720
		762
India		
Associated Cement Companies	51,947	276
Canara Bank	144,500	439
Container Corp of India	4,170	46
HDFC Bank – ADR	22,400	622
Housing Development Finance	60,308	786
HDFC Bank	57,146	472
ITC	5,373	131
Punjab National Bank	94,000	465
Reliance Industries	103,602	1,072
State Bank Of India	72,000	882
Tata Engineering and Locomotive	33,000	208
Tata Power	20,965	106
Union Bank Of India	400,000	442
Videsh Sanchar Nigam – ADR	65,775	516
Zee Telefilms	400,313	1,125
		7,588

11. Investment Portfolio (continued)	QUANTITY	2003 NET FAIR VALUE $'000
Korea		
Kangwon Land	12,306	2,032
KT	27,760	1,609
Lotte Confectionery	4,090	2,498
Samsung	124,960	1,108
Samsung Electronics	2,805	1,236
Seoul Broadcasting	25,330	1,286
SK Telecom	2,660	675
		10,444
TOTAL OTHER ASIA		21,865
AUSTRALIA		
Lihir Gold	449,931	583
		583
EUROPE – EURO		
France		
Michelin (CGDE) – B	29,100	1,686
Veolia Environment	70,000	2,135
Vivendi Universal	47,500	1,283
		5,104

11. Investment Portfolio (continued)

	QUANTITY	2003 NET FAIR VALUE $'000
Germany		
Adidas	22,400	2,842
Allianz – Registered	13,400	1,652
Douglas Holdings	27,348	876
Draegerwerk – Preferred	7,000	426
Henkel KGAA – Vorzug	32,800	3,013
Hornbach Baumarkt	45,600	1,771
Hornbach Holdings	19,860	1,737
Infineon Technologies	234,700	3,367
Linde	63,500	3,488
Merck KgAa	94,289	4,064
Muenchener Rueckversicherungs-Gesellschaft	4,300	650
Siemens	49,250	3,584
ThyssenKrupp	59,200	1,013
		28,483
Greece		
Hellenic Telecom	95,160	1,670
Hellenic Telecom – ADR	26,000	231
		1,901
Italy		
Alleanza Assicurazioni	347,700	4,905
Assicurazioni Generali	20,900	719
		5,624
Netherlands		
Hagemeyer	109,522	625
Nutreco Holding	8,700	201
Oce	94,000	1,440
		2,266
TOTAL EUROPE – EURO		43,378

11. Investment Portfolio (continued)	QUANTITY	2003 NET FAIR VALUE $'000
EUROPE – OTHER		
Denmark		
GN Store Nord – A	26,700	163
Novozymes – B	99,299	4,108
		4,271
Sweden		
Ericsson LM – B	1,564,400	2,498
		2,498
Switzerland		
Kuehne & Nagel	2,650	289
Lindt & Spruengli – Registered	50	493
Novartis – Registered	12,700	747
Roche Holding – Genusschein	5,900	688
Schindler – Registered	480	125
Schindler Participating Certificates	9,200	2,202
Schweizerische Industrie Gesellschaft Holdings – Registered	8,525	1,441
SGS Societe Generale Surveillance Holding	1,785	1,036
		7,021
United Kingdom		
AstraZeneca PLC – Sold Short	(13,000)	58
		58
TOTAL EUROPE – OTHER		13,848
NORTH AMERICA		
Canada		
Inco	25,200	788
		788

11. Investment Portfolio (continued)

	QUANTITY	2003 NET FAIR VALUE $'000
United States		
Abgenix	61,300	949
Advanced Micro Devices	125,780	1,194
Agere Systems – A	78,364	270
Agere Systems – B	455,736	1,553
Agilent Technologies	25,100	727
Barrick Gold	50,800	1,347
Capital One Financial – Sold Short	(35,500)	(390)
Clayton Homes	54,500	1,013
Colgate-Palmolive – Sold Short	(4,500)	8
Commerce Bancorp – Sold Short	(2,900)	(1)
Ecolab – Sold Short	(38,600)	(32)
Fannie Mae – Sold Short	(37,100)	279
Financial Select Sector SPDR Fund – Sold Short	(209,000)	201
Freeport – McMoran Copper – B	4,600	167
Genta	17,600	347
Gillette – Sold Short	(9,800)	(2)
International Paper	24,100	1,275
Jones Lang Lasalle	8,500	199
KB Home – Sold Short	(11,100)	48
Kelloggs – Sold Short	(21,900)	31
Lehman Brothers Holdings – Sold Short	(8,450)	95
Liberty Media	46,600	798
MGIC Investment – Sold Short	(11,400)	61
Myriad Genetics	25,600	512
National Semiconductors	25,200	736
Newmont Mining	52,950	2,546
NVR Inc – Sold Short	(4,810)	(274)
Parametric	421,100	1,884
QLogic – Sold Short	(12,150)	50
S&P 500 – Sold Short	(23)	217
Sears Roebuck – Sold Short	(4,810)	(237)
SLM Corp (Sallie Mae) – Sold Short	(14,400)	21
Stryker – Sold Short	(12,500)	(104)

11. Investment Portfolio (continued)	QUANTITY	2003 NET FAIR VALUE $'000
Sun Microsystems	220,700	1,520
Synovus Financial – Sold Short	(32,700)	(30)
Tularik	89,274	1,309
Tyco International – Sold Short	(37,000)	(217)
United Parcel Service – Sold Short	(12,600)	(37)
VEECO Instruments	28,000	706
Vertex Pharmaceuticals	35,100	761
Weyerhaeuser	20,500	1,640
		21,140
TOTAL NORTH AMERICA		21,928
SOUTH AMERICA		
Peru		
Bayer Peru – Trabajo	77,287	101
Peru Holding De Turismo – Trabajo	1,667,523	121
		222
SOUTH AFRICA		
Gold Fields – ADR	99,800	1,800
Harmony Gold Mining – ADR	25,500	509
		2,309
LIQUIDS		
Outstanding Settlements		256
Foreign Exchange Contracts		7,844
Cash at bank and on deposit		29,035
		37,135
TOTAL INVESTMENT PORTFOLIO note 12(a) and 12(b)		171,194
Accounted for in Payables (payables on purchase of investments)		833
Accounted for in Receivables (proceeds on sale of investments)		(923)
Accounted for in Receivables (dividends receivable)		(166)
ACCOUNTED FOR IN INVESTMENTS note 3		170,938

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 $115,837,438 (2002: $91,130,708) have a net fair value of $85,566,384 (2002: $75,133,710).

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

12. Risk Management

It is the Company's investment objective to seek long term capital growth through value investing internationally in businesses and companies.

The Investment Manager may also invest in fixed interest investments, although this is not the primary investment objective.

The Company's investments are subject to price (which includes currency, interest rate and market risk), credit and liquidity risks.

The Company's primary risks are related to the investment activities undertaken on its behalf by the Investment Manager.

The Company has a policy of not borrowing moneys, other than on a short term basis for settlement, trading and like purposes.

The Company's investment restrictions prohibit it from taking positions in futures, options, other derivative products or short sales of securities, if the aggregate exposure to those products exceeds 50% of the net asset value of the Company.

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

The international investment activities of the Company expose it to currency risk – the possibility of losing money owing to changes in foreign currency exchange rates – and manages this risk through forward currency hedging contracts and options on forward contracts.

Contracts open at balance date are accounted for as foreign currency monetary assets and liabilities – refer note 1(b).

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

12. Risk Management (continued)

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	29,926	(12,308)	17,618	(12,308)	17,618
Other Asia	21,865	–	21,865	–	21,865
Australia	583	–	583	–	583
Europe ~ Euro	43,378	–	43,378	–	43,378
Europe ~ Other	13,848	(833)	13,015	(833)	13,015
North America	21,928	(33,859)	(11,931)	(33,859)	(11,931)
South America	222	–	222	–	222
Africa	2,309	–	2,309	–	2,309
	134,059	(47,000)	87,059	(47,000)	87,059
Liquids	37,135	47,000	84,135	47,000	84,135
Total	171,194	–	171,194	–	171,194

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	35,855	–	(30,150)	5,705
Other Asia	24,304	–	(7,347)	16,957
Australia	10,938	93,403	(1,411)	102,930
Europe ~ Euro	47,178	8,584	(25,833)	29,929
Europe ~ Other	14,157	–	–	14,157
North America	38,540	12,872	(50,118)	1,294
South America	222	–	–	222
Total	171,194	114,859	(114,859)	171,194

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	2003 $'000	2002 $'000
Opening Balance – from 1 July 2002 – Based on tax paid and franking credits attached to dividends paid – converted at 30%	**37,479**	32,408
On tax paid and payable:		
2001/2002	**–**	12,179
2002/2003	**1,163**	–
Prior year tax provision – franking adjustment	**3**	(5)
Credits on franked dividends received	**20**	–
Interim dividend paid – franked at 30%	**(2,416)**	(2,354)
Proposed dividend – franked at 30%	**–**	(4,749)
	36,249	37,479

Under legislation that took effect on 1 July 2002, the amount recorded in the franking account is the amount of Australian tax paid, rather than franking credits based on after tax profits, and amounts debited to that account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the amount of the dividends. In accordance with the legislation the franking account has been converted to conform with the legislation. The 2002 comparatives have been converted.

14. Dividends (fully franked)	2003 CPS	2003 $'000	2002 CPS	2002 $'000
Paid – Interim fully franked at 30%	**5.00**	**5,636**	5.00	5,493
Paid – Final fully franked at 30%*	**10.00**	**11,081**	10.00	11,081
	15.00	**16,717**	15.00	16,574

* Final dividend of 10 cents per share was recognised as a liability at 30 June 2002 but adjusted against retained profits at the beginning of the financial year on the change of accounting policy for providing for dividends (note 1(l)).

14. Dividends (fully franked) (continued)	2003 $'000	2002 $'000
Dividends Not Recognised at Year End		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 10 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 10 November 2003 out of retained profits at 30 June 2003, but not recognised as a liability at year end as a result of the change in accounting policy for providing for dividends (note 1(l)), is	**11,380**	–

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 2003 was negative 5.33% against the MSCI's negative 18.28%. This represents an outperformance of 12.95% against the MSCI and 7.95% 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.

	2003 $'000	2002 $'000
Management fee	**2,573**	3,000
Performance fee	**1,486**	6,414
Amounts paid and payable to the Investment Manager for the year	**4,059**	9,414

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.

17. Segment Information	2003 $'000 SEGMENT REVENUE	2003 $'000 SEGMENT RESULT	2002 $'000 SEGMENT REVENUE	2002 $'000 SEGMENT RESULT
Japan	**(8,802)**	**(8,839)**	(9,101)	(9,141)
Other Asia	**(2,440)**	**(2,487)**	5,231	5,175
Australia	**1,601**	**1,601**	433	433
Europe ~ Euro	**(5,121)**	**(5,307)**	7,117	6,915
Europe ~ Other	**(121)**	**(150)**	2,827	2,758
North America	**3,189**	**3,154**	26,051	26,014
South America	**485**	**485**	(109)	(109)
Africa	**–**	**–**	32	29
Unallocated Revenue – Net gains/(losses) on currency hedging transactions (realised and unrealised)	**17,933**	**17,933**	10,125	10,125
Unallocated Expenses	**–**	**(5,011)**	–	(10,052)
Total	**6,724**	**1,379**	42,606	32,147

	2003 $'000 SEGMENT ASSETS	2003 $'000 SEGMENT LIABILITIES	2002 $'000 SEGMENT ASSETS	2002 $'000 SEGMENT LIABILITIES
Japan	**5,294**	**–**	4,071	236
Other Asia	**18,949**	**480**	22,329	–
Australia	**109,681**	**5,013**	130,589	21,466
Europe ~ Euro	**30,160**	**–**	43,135	–
Europe ~ Other	**14,158**	**–**	10,270	320
North America	**(2,024)**	**352**	(14,799)	381
South America	**222**	**–**	445	–
Africa	**2,309**	**–**	1,304	–
Total	**178,749**	**5,845**	197,344	22,403

18. Events Occurring After Reporting Date

No significant events have occurred since balance date which would impact the financial position of the Company as at 30 June 2003 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: GW Galt, PW Clarke, MG Darling, WKS Neilson, AM Clifford and RM Halstead. All of these persons were Directors during the year ended 30 June 2003.

(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:

	2003	2002
$10,000 – $19,999	**1**	–
$30,000 – $39,999	**1**	1
$40,000 – $49,999	**1**	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:

	2003 ORDINARY SHARES	2002 ORDINARY SHARES
WK Neilson	**893,626**	1,516,924
AM Clifford	**666,079**	1,305,788
RM Halstead	**650,910**	1,291,712

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

Acquisitions		
WK Neilson	**59,556**	115,725
AM Clifford	**43,145**	100,662
RM Halstead	**42,052**	99,657
Disposals		
WK Neilson	**682,854**	105,170
AM Clifford	**682,854**	105,170
RM Halstead	**682,854**	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 51:

(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 2003 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.

GW Galt
Director

WK Neilson
Director

Sydney
6 August 2003

INDEPENDENT AUDIT REPORT to the Members of Platinum Capital Limited

Audit Opinion

In our opinion, the financial report, set out on pages 24 to 52:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Platinum Capital Limited (the Company) as at 30 June 2003 and of their 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 2003 is the responsibility of the Directors of the Company.

It includes the financial statements for 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 their performance as represented by the results of their 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;
- obtaining written confirmation regarding material representations made to us in conjunction 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

A.J Loveridge

AJ Loveridge
Partner

6 August 2003