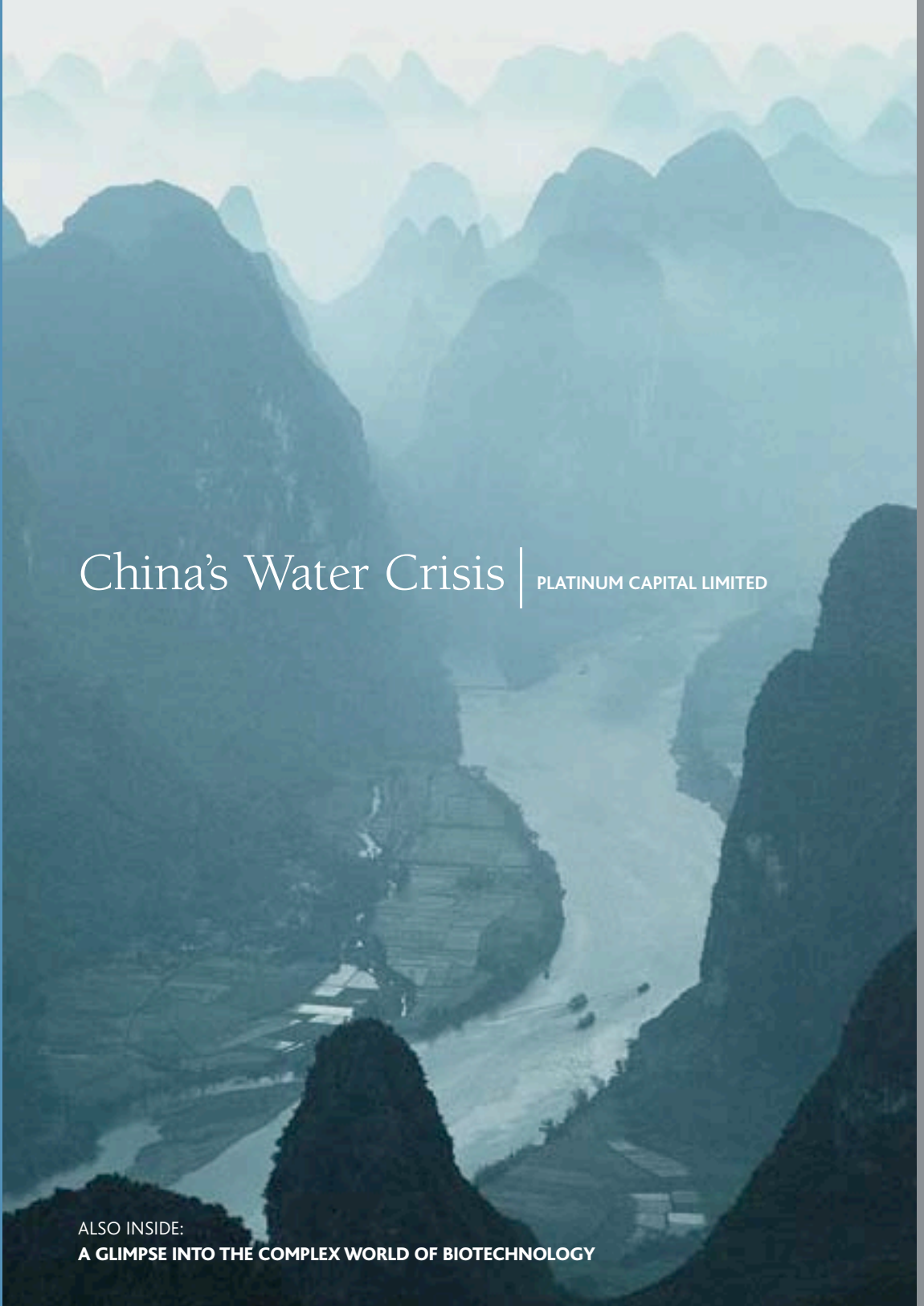

China's Water Crisis | PLATINUM CAPITAL LIMITED

ALSO INSIDE:
A GLIMPSE INTO THE COMPLEX WORLD OF BIOTECHNOLOGY

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INTRODUCTION

As many of you will know, we at Platinum Asset Management use a number of techniques to try to gain an edge in this game of investing. Firstly, we favour neglected companies and sectors. Secondly, we use themes that might steer us towards prospective areas of investment. This is the relevance of this year's choice of topic for the Annual Report.

The first piece was put out by the Worldwatch Institute some years back but for that reason is all the more cogent. The damage that "industrial development" wreaks on the environment is well publicised. However, far less coverage is given to the hidden and temporary subsidy that result from water mining and inadequate waste water treatment. As we highlighted last year when warning of the impending price hike in oil, these resources are finite, yet humanity has a damaging habit of believing their individual actions are quite distinct from their cumulative impact.

In the case of China, the current drive of industrialisation is quite without precedent. Equally so is its impact on mother earth. The challenges this creates will require imaginative solutions, and the consequences of properly accounting for the cost of water will yield some rewarding investment opportunities.

Those who attempt to compete with Chinese manufacturers are generally baffled by the extraordinarily low cost at which they deliver finished goods to customers. In some cases it is because of direct subsidies but in addition, we believe, it can be traced back to hidden subsidies relating to inadequate provision for the costs of energy, water and waste treatment among other uncharged social costs. With the country now a major trading nation, ranking fourth among world exporters, it would be imprudent to believe this state of affairs can persist for long. As these costs are gradually recalibrated, so the general cost of doing business will rise.

More interesting perhaps is the observation that the water problems described in the article will have direct consequences for agricultural output and the ability of China to feed her inhabitants. This will clearly have massive ramifications. Among other things, we believe it will create major changes in the trading patterns of grains and other foods. As an example, the amount of water needed to produce one tonne of grain is put at around 1,000 tonnes of water. Hence, the arithmetic for exporting a tonne of dressed beef from Australia can be seen as the equivalent of "transporting" 9,000 tonnes of virtual water (conversion rate of 9 tonnes of grain to one tonne of beef x 1,000 tonnes). Seen against the backdrop of Australia's current exports of beef of approximately 1.5 million tonnes a year, the number takes on a new perspective. This is just one way of trying to think laterally about the opportunities that may arise from the impending water crisis. Indeed these pressures become all the more acute when taking account of similar problems facing other highly populated countries, such as India, which are also beginning to industrialise!

The second article is another subject that most active investors are likely to need to know more about in the years ahead. Molecular biology has come a long way since the identification of the double stranded helix of DNA in the 1950s, however it looks as though scientists have hardly scraped the surface. For this reason we asked Bianca Elzinger to write a primer to enable shareholders to develop a familiarity with the terms and concepts of this fascinating branch of science. It is a vast new area of endeavour and Bianca has not attempted to produce another scientific paper but to provide readers with some of the building blocks and a sense of the level and pace of discovery that is taking place in labs and in clinical trials.

Bianca joined Platinum Asset Management in August 2003, bringing extensive knowledge and skills developed during the course of an international career in leading research laboratories, including Novartis in Switzerland and Johnson & Johnson in Sydney. Bianca's focus has been as a molecular biologist in both the virology and oncology fields with aspects of her work presented at scientific conferences. Vigilant readers may recall from the December 2002 Platinum quarterly report that we identified the opportunity to invest in a basket of biotechnology stocks at attractive valuations. Over the course of the past 18 or so months, enhanced by Bianca's addition to the team, we have pursued this theme and visited many biotechnology companies in a variety of countries, with projects ranging from fascinating new research tools through to potential drugs for difficult to treat diseases.

I urge you to read both articles and suggest that you digest Bianca's piece before your second glass of Scotch. ⬠

KERR NEILSON MANAGING DIRECTOR

SOURCE: WORLDWATCH INSTITUTE, WORLD WATCH, VOL. 11 NO. 4,
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LESTER R BROWN IS PRESIDENT OF THE WORLDWATCH INSTITUTE,
BRIAN HALWEIL IS VISITING RESEARCHER AT THE INSTITUTE
JULY/AUGUST 1998

CHINA'S WATER SHORTAGE COULD SHAKE WORLD FOOD SECURITY

BY LESTER R BROWN AND BRIAN HALWEIL

An unexpectedly abrupt decline in the supply of water for China's farmers poses a rising threat to world food security. China depends on irrigated land to produce 70 percent of the grain for its huge population of 1.2 billion people, but it is drawing more and more of that water to supply the needs of its fast-growing cities and industries. As rivers run dry and aquifers are depleted, the emerging water shortages could sharply raise the country's demand for grain imports, pushing the world's total import needs beyond exportable supplies.

Any major threat to China's food self-sufficiency, if not addressed by strong new measures, would likely push up world grain prices, creating social and political instabilities in Third World cities. New information on the deteriorating water situation has confirmed the imminence of this possibility. The challenge now facing the Chinese government is how to meet the soaring water needs of its swelling urban and industrial sectors without undermining both its own agriculture and the world's food security.

The decline in China's capacity to irrigate its crops is coming at a time when depleted world grain stocks are near an all-time low. With its booming economy and huge trade surpluses, China can survive its water shortages by simply importing more of its food, because it can afford to pay more for grain. But low-income countries with growing grain deficits may not be able to pay these higher prices. For the 1.3 billion of the world's people who live on $1 a day or less, higher grain prices could quickly become life-threatening. The problem is now so clearly linked to global security that the U.S. National Intelligence Council (NIC) the umbrella over all U.S. intelligence agencies, has begun to monitor the situation with the kind of attention it once focused on Soviet military maneuvres.

LI RIVER
GUILIN

THE DECLINE IN CHINA'S CAPACITY TO IRRIGATE ITS CROPS – SIGNS OF WHICH INCLUDE THE DRYING-UP OF RIVERS AND WELLS – IS COMING AT A TIME WHEN WORLD GRAIN STOCKS ARE NEAR AN ALL-TIME LOW.

This deepening concern led the NIC to sponsor a major interdisciplinary assessment of China's food prospect. Headed by Michael McElroy, chairman of Harvard University's Department of Earth and Planetary Sciences, the study used information from intelligence satellites to refine cropland area estimates, and commissioned computer modeling by the Sandia National Laboratory to assess the extent of future water shortages in each of China's river basins. The recently released study concluded that China will need massive grain imports in the decades ahead.

Signs of Stress

Since mid-century, the population of China has grown by nearly 700 million – an increase almost equivalent to adding the whole population of the world at the beginning of the Industrial Revolution. Most of that population has concentrated in the region through which several great rivers, including the Yellow and the Yangtze, flow. Those rivers provide the irrigation water needed to grow much of the food for China, as well as the water for its burgeoning cities and industries.

This dependence has placed a growing burden on the region's land and water resources, because the Chinese population has not been able to expand into new land the way the Americans once did with their westward expansion into the Great Plains and California. In China, the western half of the country is mostly desert or mountains. The resulting concentration of Chinese population, industry, and agriculture has been roughly equivalent to squeezing the entire U.S. population into the region east of the Mississippi, then multiplying it by five.

A quarter-century ago, with more and more of its water being pumped out for the country's multiplying needs, the Yellow River began to falter. In 1972, the water level fell so low that for the first time in China's long history it dried up before reaching the sea. It failed on 15 days that year, and intermittently over the next decade or so. Since 1985, it has run dry each year, with the dry period becoming progressively longer. In 1996, it was dry for 133 days. In 1997, a year exacerbated by drought, it failed to reach the sea for 226 days. For long stretches, it did not even reach Shandong Province, the last province it flows through en route to the sea. Shandong, the source of one-fifth of China's corn and one-seventh of its wheat, depends on the Yellow River for half of its irrigation water.

Although it is perhaps the most visible manifestation of water scarcity in China, the drying-up of the Yellow River is only one of many such signs. The Huai, a smaller river situated between the Yellow and Yangtze, was also drained dry in 1997, and failed to reach the sea for 90 days. Satellite photographs show hundreds of lakes disappearing and local streams going dry in recent years, as water tables fall and springs cease to flow.

The Fen River that runs through Taiyuan, the capital city of Shanxi province, no longer exists. The major river in the province, and the lifeline of Taiyuan, was emptied

to fuel the city's coal industry. Big industrial wells driven more than 300 feet, and sometimes as much as 2,500 feet into the ground, tap Taiyuan's last remaining groundwater resources. Dan Goonaratnum, a water resources expert with the World Bank, notes that this city of 2 million "has come to the stage in which they either shift the population or divert water from the Yellow River," more than 200 miles away. Meanwhile, as water tables have fallen, millions of Chinese farmers are finding their wells pumped dry.

In the geography of water, there are two Chinas. The humid South includes the vast Yangtze River and a population of 700 million. The arid North includes the Yellow, Liao, Hai, and Huai Rivers, and has 550 million. While four-fifths of the water is in the South, two-thirds of the cropland is in the North. As a result, the water per hectare of cropland in the North is only one-eighth that in the South.

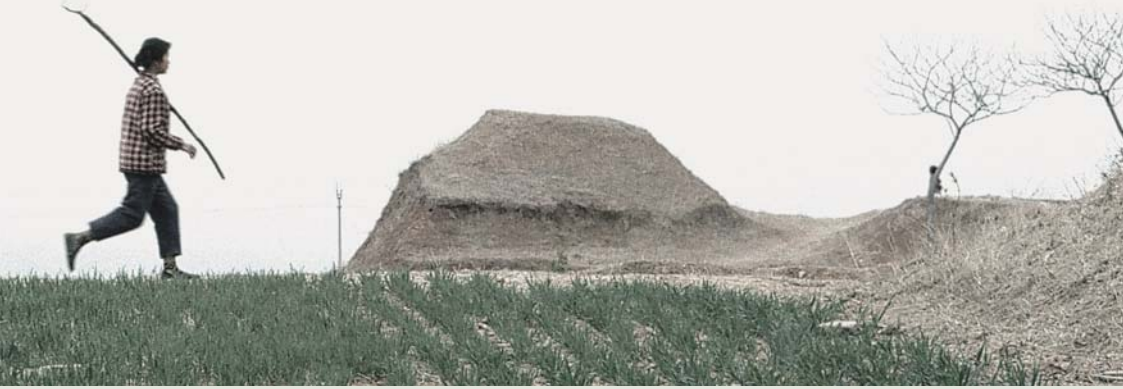
Although comprehensive hydrological data are not always available, key pieces of the water puzzle are beginning to emerge from various sources. A recent Chinese survey reported by Professor Liu Yonggong of China Agricultural University in Beijing indicated that the water table beneath much of the North China Plain, a region that produces some 40 percent of China's grain, has fallen an average of 1.5 meters (roughly 5 feet) per year over the last five years. A joint Sino-Japanese analysis of China's agricultural prospect reports that water tables are falling almost everywhere in China that the land is flat.

In the late summer of 1997, many of the irrigation wells in Shandong Province, which was experiencing its worst drought in 25 years, were not pumping. Chinese water analysts report frenzied well-drilling in some provinces as farmers chased the falling water table downward.

Of course, those farmers' ability to provide food enough for their nation is constrained by a range of factors in addition to water – by the construction of roads over once-productive farmland, by erosion of soil, by the diminishing benefits of fertilizer, and by a shrinking backlog of the technology used to raise land productivity. But it is the swelling diversion of irrigation water, combined with heavy losses to aquifer depletion, that has emerged as the most imminent threat to China's food security.

Projected Demand for Water

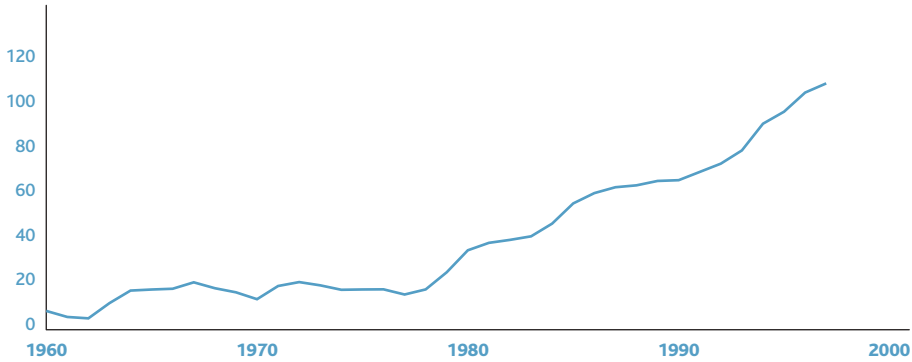
Even as the Yellow River, aquifers, and wells get drier, the need for water continues to swell. Between now and 2030, UN demographers project that China's population will increase from 1.2 billion to 1.5 billion, an increase that exceeds the entire population of the United States. Even if there were no changes in water consumption per person, this would boost the demand for water by one fourth above current levels – but per-person consumption, too, is growing. It is expected to grow in all three of the end use sectors – agricultural, residential, and industrial.



FARMER
SHANXI

ECONOMICALLY, FARMS CAN'T COMPETE WITH FACTORIES FOR WATER. AS COMPETITION AMONG FARMS, HOMES AND INDUSTRIES INTENSIFIES, FARMS INEVITABLY LOSE OUT.

FIGURE 1
CHINA: GRAIN USED FOR FEED, 1960 to 1997.
MILLION TONS



SOURCE: USDA

In the agricultural sector, demand for irrigation water, now roughly 400 billion cubic meters or tons per year, is expected to reach 665 billion tons in 2030. As incomes rise, people are consuming more pork, poultry, beef, and eggs, and feedgrain use is growing. For example, to produce one kilogram of pork it takes four kilograms of grain, and one kilogram of chicken takes two kilograms of grain. More grain means more water (see Figure 1). According to the U.S. Department of Agriculture (USDA), between 1990 and 1997, consumption of pork climbed by a phenomenal 9 percent per year. Consumption of both beef and poultry, starting from a much smaller base, has climbed at over 20 percent per year. The brewing of beer, which is also made from grain, is growing at 7 percent annually.

In the residential sector, a similar compounding is occurring. At present, some 85 percent of all water withdrawals are for irrigation, but the residential share is increasing as China's population urbanizes and hundreds of millions turn from the village well to indoor plumbing with showers and flush toilets. Combined with projected increases in population, rising individual water use will boost residential water use from 31 billion tons in 1995 to 134 billion tons in 2030, a gain of more than four-fold.

The demand for water by industry is growing even faster. Assuming an economic growth of 5 percent a year from 1995 until 2030 (actual growth in the past decade has been more than twice that rate), industrial water use would increase from 52 billion tons to 269 billion tons (see table, Figure 2). The increase in residential and industrial water use together would total 320 billion tons of water during this 35-year span. If this water were used for irrigation, at 1,000 tons of water required per ton of grain produced, it would yield 320 million tons of grain, an amount approaching China's 1997 grain harvest of 380 million tons.

FIGURE 2
PROJECTED WATER DEMAND IN CHINA, 1995 to 2030.
BILLION TONS

	1995	2030
RESIDENTIAL	31	134
INDUSTRIAL	52	269
AGRICULTURAL	400	665
TOTAL	483	1,068

SOURCE: WORLDWATCH INSTITUTE

In other words, non-agricultural uses that are now straining the system by drawing only 15 percent of the supply would multiply nearly five times, while the agricultural needs now taking 85 percent would have increased as well. Obviously, that can't happen. Because consumption can't exceed the sustainable supply for long, China is facing fundamental changes in the way it distributes and uses its water.

Diversion, Depletion, and Pollution

Although 70 percent of the grain produced in China comes from irrigated land, the country is seeing its irrigation supply depleted on three fronts: the diversion of water from rivers and reservoirs to cities; the depletion of underground supplies in aquifers; and the increasing pollution caused by rapid industrialization. Politically, it is difficult for any government to deny people water for their showers and toilets, if they can afford to buy it – and China's urbanizing population increasingly can. And economically, farms can't compete with factories for water. As competition among farms, homes, and industries intensifies, farms inevitably lose out.

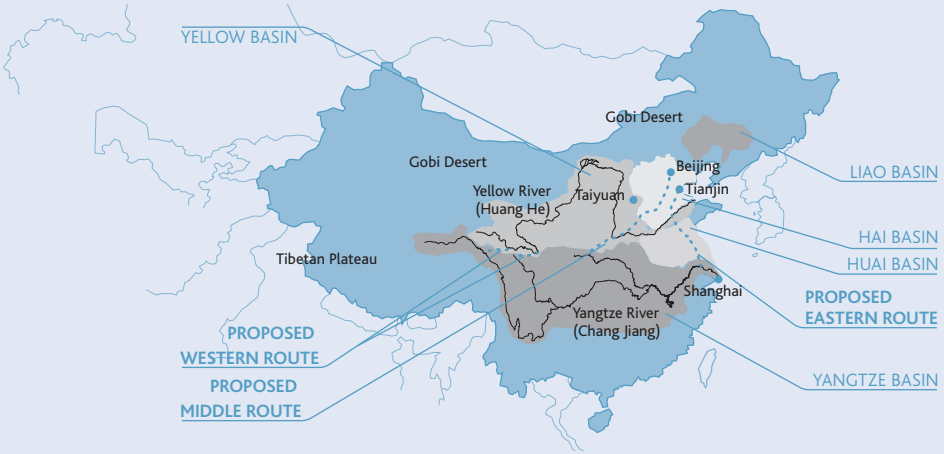
Of China's 617 largest cities, 300 are already facing water shortages. In those areas of North China where all available water is being used, these shortfalls can be filled only by diverting water from agriculture. In the spring of 1994, farmers in the region surrounding Beijing were denied access to reservoirs, their traditional source of irrigation water, because all the water was needed to satisfy the city's burgeoning demand. That established a pattern for water-stressed cities all over the North China Plain.

As for the demand from industry, agriculture simply cannot compete in China or anywhere else. A thousand tons of water produces one ton of wheat, which has a market value of $200, whereas the same amount of water used in industry yields an estimated $14,000 of output – 70 times as much. Moreover, that economic advantage is reinforced by a political one: the need to provide jobs for some 14 million new entrants into the

CITYSCAPE
SHANGHAI

CHINA DEPENDS ON IRRIGATED LAND TO PRODUCE 70 PERCENT OF THE GRAIN FOR ITS HUGE POPULATION OF 1.2 BILLION PEOPLE, BUT IT IS DRAWING MORE AND MORE OF THAT WATER TO SUPPLY THE NEEDS OF ITS FAST-GROWING CITIES.

FIGURE 3
WHERE WILL THE WATER COME FROM?



labor force each year. And, as China's old state-run corporations are cut back, massive layoffs are leaving millions of people unemployed. As it happens, water used in industry can also create a disproportionately large number of jobs. Since incomes are much higher in industry than in agriculture, the number of jobs a given amount of water can bring to industry versus agriculture is somewhat less than the 70 to 1 just mentioned, but the bottom line still is that shifting irrigation water to industry creates many more jobs.

While farmers are losing out to cities and industries politically, they are also losing ground hydrologically. As the demand for underground water increases over time, the pumping eventually surpasses the natural recharge of the aquifer, which comes from precipitation in the upstream portion of the watershed. After this "sustainable yield threshold" is passed, the water table starts to fall. If demand continues to climb, the excess of pumping over the sustainable yield of the aquifer widens each year. As a result, the distance the water table falls increases each year.

Once the aquifer is depleted, the amount of water pumped is limited to the rate of recharge. It cannot be otherwise. If the pumping has been taking place at double the recharge when depletion occurs, then the pumping will be cut by half. If pumping has been five times the recharge, it will be cut by four fifths. Under the North China Plain, if the water table is falling 1.5 meters per year, then the pumping could easily be occurring at double the recharge rate. And if it is, the time will come when the amount of water pumped in this wheat and corn belt will be necessarily cut by half.

When farmers lose irrigation water, they either revert to dryland (rain-fed) farming if rainfall is sufficient or they abandon the land if it is not. For China, most of the land will simply revert to dryland agriculture. The yield will then decline by about one-half to two-thirds.

Unfortunately, even this stark arithmetic fails to fully convey the extent to which China's grainland irrigation water is being lost, because it doesn't account for losses to

CHINA'S GEOGRAPHY CONFRONTS ITS PLANNERS WITH A COLOSSAL PROBLEM: WHEREAS TWO-THIRDS OF ITS AGRICULTURE IS IN THE NORTH, FOUR-FIFTHS OF ITS WATER IS IN THE SOUTH. OF THE FIVE WATERSHEDS WHERE MOST OF THE COUNTRY'S PEOPLE AND FARMS ARE CONCENTRATED, FOUR – CONTAINING 550 MILLION PEOPLE – ARE IN THE ARID NORTH. ENGINEERS HAVE PROPOSED TRANSPORTING WATER FROM THE SOUTH, BUT THE WORLD WATCH ANALYSIS SUGGESTS THAT A DIFFERENT STRATEGY WILL BE NEEDED.

KEY

MAJOR RIVERS

PROPOSED DIVERSION ROUTES

MAJOR RIVER BASINS

pollution. There are 50,000 kilometers of major rivers in China, and, according to the UN Food and Agriculture Organization, 80 percent of them are so degraded they no longer support fish. As a result of toxic discharge from cities and upstream enterprises, which include such highly polluting industries as paper mills, tanneries, oil refineries and chemical plants, the Yellow River water is now loaded with heavy metals and other toxins that make it unfit even for irrigation, much less for human consumption, along much of its route.

Water pollution horror stories abound throughout China as farmers – for want of a cleaner source – irrigate with heavily polluted water. In Shanxi province, in the Yellow River watershed, rice has been found to contain excessive levels of chromium and lead, and cabbage is laced with cadmium. Along the length of the Yellow River, abnormally high rates of mental retardation, stunting, and developmental diseases are linked to elevated concentrations of arsenic and lead in the water and food.

As industrialization outpaces pollution control, more and more river water is rendered unsuitable for irrigation. In the heavily industrialized, heavily populated Yangtze valley, it may not be the diversion of water to industry that most threatens agriculture, but the pollution of water by industry, which renders it unsuitable for irrigation to begin with.

Basin-by-Basin Review

The most meaningful way to assess the effect of excessive withdrawals, either from rivers or aquifers, is to analyze the situation in each river basin individually – as was done in the Sandia Laboratory modeling study. Sandia studied five basins – the Yangtze, Yellow, Hai, Huai, and Liao – in which some 900 million of China's 1.2 billion live and which produce a comparable share of its food (see map, Figure 3).

The Yangtze River, which dominates southern China, never runs dry. In this basin, water supplies appear to be sufficient to satisfy needs through 2030. That doesn't rule out

sporadic local shortages as demand soars in the decades ahead, but at least the basin does not appear to face any severe constraints based on quantity.

To the north, the situation is more precarious. All four of the northern basins face acute water scarcity and a swelling diversion of water to nonfarm uses. The Hai basin, which is home to 92 million people and includes both Beijing and Tianjin, is now in chronic deficit. The projected water withdrawals in the basin in the year 2000, estimated at 55 billion cubic meters, far exceed the sustainable supply of 34 billion cubic meters, according to Sandia's Dennis Engi. This water deficit of 21 billion cubic meters can be satisfied only by groundwater mining. But once the aquifer is depleted, water pumping will drop to the sustainable yield of the aquifer, cutting the water supply by nearly 40 percent. At a minimum, this indicates that the reallocation of irrigation water to cities, already underway in the region surrounding Beijing, will become basin-wide in the years ahead.

To the south lies the Yellow River basin, which is already suffering severe bouts of annual dessication, but where conditions seem destined to worsen. Claims on the river itself, which originates in the Quighai-Tibet plateau and flows through eight provinces en route to the sea, are expected to soar in the years ahead, since this basin, which contains 105 million people is designated for rapid industrialization. Each of the upstream provinces plans to increase its withdrawals from the river for residential and industrial uses.

Among the hundreds of projects that will be diverting water from the Yellow River's upper reaches in the years ahead is a plan to build a canal that will move 146 million cubic meters per year – equal to the annual water consumption of Newark, New Jersey – into Hohhot, the capital of Inner Mongolia. When this project is completed in 2003, this additional water will help to satisfy the swelling residential needs of 1.2 million people as well as the needs of expanding industries, including the all-important wool textile industry, which is supplied by the region's vast flocks of sheep.

Another project, the Lijiaxia Hydropower Station, one of the largest in China, began operating its five 400,000-kilowatt turbines in 1997. It is only the third of many large power stations scheduled for construction on the upper reaches of the Yellow River. Hydroelectric engineers like to argue that such plants merely take the energy out of the river, not water. But hydroelectric reservoirs, which greatly expand the river's surface area, can increase annual water loss through evaporation by easily 10 percent of the reservoir's volume.

With the proliferating of new upstream projects, ever less water will flow to the already-depleted lower reaches of the basin. One result is that some companies are moving their factories upstream, both to assure an uninterrupted supply of water and to take advantage of the cheaper labor they can find there. If this trend continues, the Yellow River could become an inland river, one that never reaches the sea. This prospect leads to sleepless nights for agricultural officials in Beijing, because if the Yellow River fails

FARMER
SHANDONG

IN THE LATE SUMMER OF 1997, MANY OF THE IRRIGATION WELLS IN SHANDONG PROVINCE, WHICH WAS EXPERIENCING ITS WORST DROUGHT IN 25 YEARS, WERE NOT PUMPING.

to reach Shandong altogether, it would deprive the province of roughly half of its irrigation water. It would be a staggering setback, since Shandong has a larger share of China's grain harvest than Iowa and Kansas together have of the U.S. grain harvest.

Yet, the pressure to create jobs in upstream provinces is overwhelming. At the national level, the redistribution of income to the economically lagging interior may be essential to maintaining political stability and preventing a massive exodus to cities in the coastal provinces. The dilemma leaves the Beijing government walking a political tightrope, as it attempts to balance politically compelling upstream needs for indoor plumbing and jobs against increasingly urgent downstream needs for irrigation water.

Water Losses Reducing Harvest

It is a matter of mounting concern, not just to agricultural officials but increasingly to national leaders and security advisers, to know more precisely what happens to land productivity as the supply of irrigation water plummets. So far, little hard data has been compiled. The *China Daily* reported that in 1995, the failure of the Yellow River to reach Shandong Province lowered the grain harvest by 2.7 million tons, enough to feed 9 million people. If so, the effect of the river's running dry for twice as long in 1997 was likely far greater.

While much attention has focused on water shortages in cities, the villages are also experiencing acute deprivation – often with less recourse. At China's National People's Congress, convened in early March of 1998, delegate Wang Wenyuan pointed out that "Rural villages nationwide are facing annual shortages amounting to 30 billion cubic meters of water, which has cut grain production by 20 million tons…".

In assessing the effect of future water losses on food production in China, it would be helpful to know how much of existing irrigated grain production is based on the unsustainable use of water – or groundwater mining. In the United States, where only one-tenth of the grain harvest comes from irrigated land, irrigation water losses will not substantially alter the world grain supply. But in a country where 70 percent of an even larger grain harvest comes from irrigated land, and where groundwater mining is widespread, the impending consequences of aquifer depletion are far greater.

A second key question is how much irrigation water will be lost to nonfarm uses. We don't know how much of the country's projected growth of 103 billion tons in residential water use and 217 billion tons in industrial water use will be at the expense of agriculture overall, but in those parts of central and northern China where all the water is now spoken for, the farm is the only place where it can come from.

Although projections of the future diversion of irrigation water to residential and industrial uses do not yet exist for China, World Bank calculations for South Korea,

a relatively well watered country, give some sense of what might lie ahead. The Bank's analysts calculate that if the Korean economy grows at an average 5.5 percent annually until 2025, growth in water withdrawals for residential and industrial use will reduce the supply available for agriculture from 13 to 7 billion tons. Ignoring the potential for reusing industrial or domestic water in agriculture, or the effect of price changes, this would reduce the water available for irrigation by nearly half. If so, the losses in the North China region, which has far less water per person to begin with, could follow a similar pattern. Such diversion would profoundly alter China's food prospect – affecting it even more than will the conversion of cropland to nonfarm uses, long a matter of concern in Beijing.

Restructuring China's Water Economy

When smaller countries such as Israel, Jordan, and Saudi Arabia have faced acute water scarcity they have simply diverted irrigation water to the cities as needed, sacrificing grain production and importing 75 to 95 percent of their grain. But China is too big to do this – it would put impossible demands on the world market – and thus must fashion an indigenous solution to the problem of water scarcity.

To do so will require restructuring the entire agricultural, energy, and industrial economies to make them more water efficient. This will entail shifting to reliance on more water-efficient crops and livestock products and on less water-intensive energy sources. It will also mean reducing pollution so that water does not become unusable for irrigation.

On the supply side, three proposals have been made for diverting water from the South, but none would provide more than 20 billion tons of water – only a drop in the bucket compared with the emerging deficits in the North. One, the so-called "western" route, calls for diverting water from the upper reach of the Yangtze to the upper reach of the Yellow River. A "middle" route has water being diverted from the northernmost point of the Han Shui River, a Yangtze tributary, directly to Beijing. The third, or "eastern" route, would divert water from the Yangtze as it approaches Shanghai, sending it north to Tianjin, the large industrial city located roughly 120 miles from Beijing (see map, Figure 3, page xiv).

Diverting water from the Yangtze tributary, the Han Shui, to Beijing would be comparable in reach to turning to the Mississippi River to satisfy the needs of Washington, DC. Cost estimates soar into the tens of billions of dollars. Some analysts point out that money spent on South-to-North water diversion projects could be spent much more profitably on investing in water efficiency or importing grain. Those urging the latter point out that importing 20 million tons of grain per year (Canada's annual grain exports) to North China would free up the 20 billion tons of water that would be diverted by the Han Shui scheme, but at a much lower cost.

LIJIAXIA
YELLOW RIVER

AS NEW CITIES RISE THROUGHOUT CHINA AND OLDER CITIES EXPAND AND ARE REBUILT, URBAN PLANNERS WOULD DO WELL TO KEEP THE STREAMS OF INDUSTRIAL AND RESIDENTIAL WASTEWATER SEPARATE.

One of the most frequently proposed responses to water scarcity is water pricing – charging users enough for water to ensure that it is used efficiently. Unfortunately, to set a price on water high enough to ensure efficient *industrial* use would put the price many times higher than farmers could afford to pay for irrigation. To ensure efficient *agricultural* use, the price of water needs to be raised, but not to the point where it becomes too expensive for farmers to use. This suggests the need for a two-tiered pricing system, with one price for farmers and another for industry and cities.

On the farmers' tier, higher prices would encourage shifting to efficiency-enhancing irrigation practices. For example, Worldwatch senior fellow Sandra Postel notes in her book *Last Oasis* that there is a great untapped potential for the use of sprinklers, which can substantially boost efficiency over the traditional flood or furrow irrigation now used on over 95 percent of China's irrigated land. One system, known as Low Energy Precision Application (LEPA), operates at low pressure with two efficiency advantages over other sprinkler designs: it uses less energy, and water is delivered close to the ground rather than sprayed into the air with high evaporation losses. Throughout the southern Great Plains of the United States, LEPA has helped farmers cope with cutbacks in water availability from aquifer depletion while at the same time lowering energy costs and boosting yields. Drip irrigation, a technology pioneered in Israel, is not economical for use on grain, but on high-value fruit and vegetable crops it can cut water use by up to 70 percent.

Along with more water-efficient agricultural techniques, there is need for shifting to less water-intensive crops. This may mean producing less rice and more wheat in some regions. With livestock products, it means raising more poultry and less pork, since a kilogram of poultry requires only half as much grain, and therefore only half as much water, as a kilogram of pork. And it may mean an official policy of discouraging consumption of livestock products in the more affluent segments of Chinese society, where animal fat intake has already reached health-damaging levels.

Another promising possibility is to increase water use efficiency in homes and industry. For example, it might well make economic sense for cities in water-scarce regions of China to introduce composting toilets rather than the traditional water-flush toilets. The Western water-intensive sewage disposal model simply may not be appropriate for water-scarce China. Beyond this, the adoption of water-efficient standards for household faucets and showers can also help stretch scarce water supplies.

As new cities rise throughout China and older cities expand and are rebuilt, urban planners would do well to keep the streams of industrial and residential wastewater separate – as opposed to replicating the Western model which combines these flows. Uncontaminated by industrial pollutants, residential wastewater can be recycled, while nutrients are removed for use as fertilizer. The present rush of expansion, while

environmentally damaging and difficult to manage, at least offers a unique window of opportunity for efficient design, because poor designs adopted now will incur the economic costs of future retrofits and the social costs of water shortages.

The potential for saving water in industry is perhaps even more promising. For example, the amount of water used to produce a ton of steel in China ranges from 23 to 56 cubic meters, whereas in the highly industrialized countries, such as the United States, Japan, and Germany, the average is less than 6 cubic meters. Similarly, a ton of paper produced in China typically requires at least 450 cubic meters of water, whereas in industrial countries, it generally requires less than 200 cubic meters. For some industries, achieving high efficiency will require investing in entirely new technologies and factories. In other cases, rather modest changes in manufacturing processes can yield large water savings.

In the energy industry, fundamental restructuring is already a global imperative because of the need for climate stabilization. Fortunately, the technologies that offer the most immediate environmental benefits from the standpoint of greenhouse gas reduction – wind and solar power – are also water-efficient; they use much less water than hydropower, nuclear power or coal. Developing wind-power resources would also strengthen the economies of the wind-rich interior provinces.

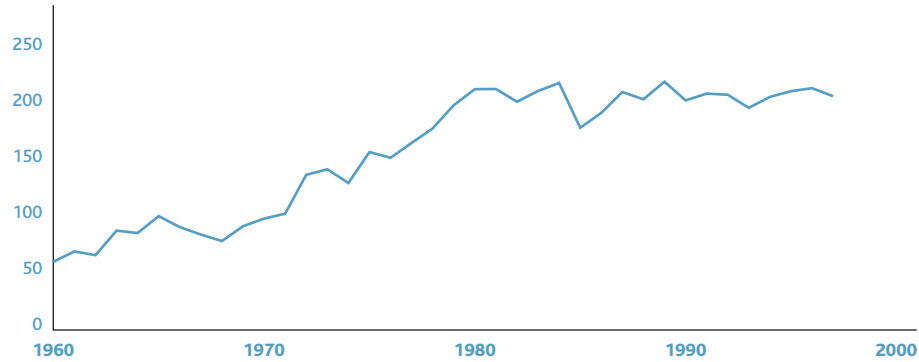
Clearly, an across-the-board effort to restructure China's water economy is needed. In contrast to the traditional supply-side solutions to water scarcity – often involving gargantuan feats of engineering with adverse social and environmental effects – demand-side management is central to meeting future water needs. Just as incremental increases in per capita water use for China's huge population can lead to enormous additional water requirements, incremental gains in per capita water efficiency can lead to enormous savings of water. These efforts are not likely to prevent shrinking of irrigation water supplies in North China as aquifers are depleted and as irrigation water is diverted to cities, but they can mitigate the impact of such shrinking.

China's Grain Imports

When the expanding demand for water collides with the physical limits of supply, and household water needs can be satisfied only by diverting water from irrigation, countries typically import grain to offset the resulting production losses. In effect, to import a ton of wheat is to import a thousand tons of water. If the most efficient way for water-deficit countries to import water is in the form of grain, then water scarcity can be expected to spread across national boundaries through grain trade.

Experience elsewhere shows how water scarcity can raise dependence on imports. The world's fastest growing grain market is not East Asia, but North Africa and the Middle East, the region stretching from Morocco eastward through the Middle East to include Iran.

FIGURE 4
GRAIN EXPORTS (ARGENTINA, AUSTRALIA, CANADA, EUROPEAN UNION, UNITED STATES), 1960 TO 1997.
MILLION TONS



SOURCE: USDA

In this region where demand for grain is fueled by rapid population growth and rising affluence, often driven by oil wealth, farmers are now so hamstrung by water scarcity that they simply cannot expand production fast enough to keep up. In 1997, this region, which contains only five percent of the world's people, accounted for roughly one-fourth of world grain imports. The water required to produce the grain imported into the region was roughly equal to the annual flow of the Nile.

If China is facing ever-growing water deficits in agriculture, then it is also facing a growing gap between its rapidly rising demand for food and the ability of farmers to expand production. If the NIC projections of the need to import 175 million tons in 2025 is extrapolated to the year 2030 to mesh with our projection time horizon, it goes over 200 million tons – the equivalent of total world grain exports today.

With the scope of its analysis limited to China, the NIC study simply assumes that the needed 175 million tons of grain imports will be readily available from exporting countries, but the trends in the principal exporters – the United States, Canada, Australia, Argentina, and the European Union – raise doubts about this assumption. These countries, which produce 85 percent of the world's grain exports, steadily increased their exports from less than 60 million tons in 1960 to 200 million tons by 1980. But since 1980, there has been no growth in world grain exports even though the U.S. has returned to production all the cropland idled under its farm commodity programs (see Figure 4). The global total has fluctuated around 200 million tons per year for nearly two decades, initially because demand was not growing, but more recently because of an inability to produce more for export.

In the United States, where the cropland base is essentially fixed, growth in the grain harvest is limited to the rise in land productivity. With this rise now barely keeping up with the growth in U.S. population, there is no growth in exportable supplies. The European

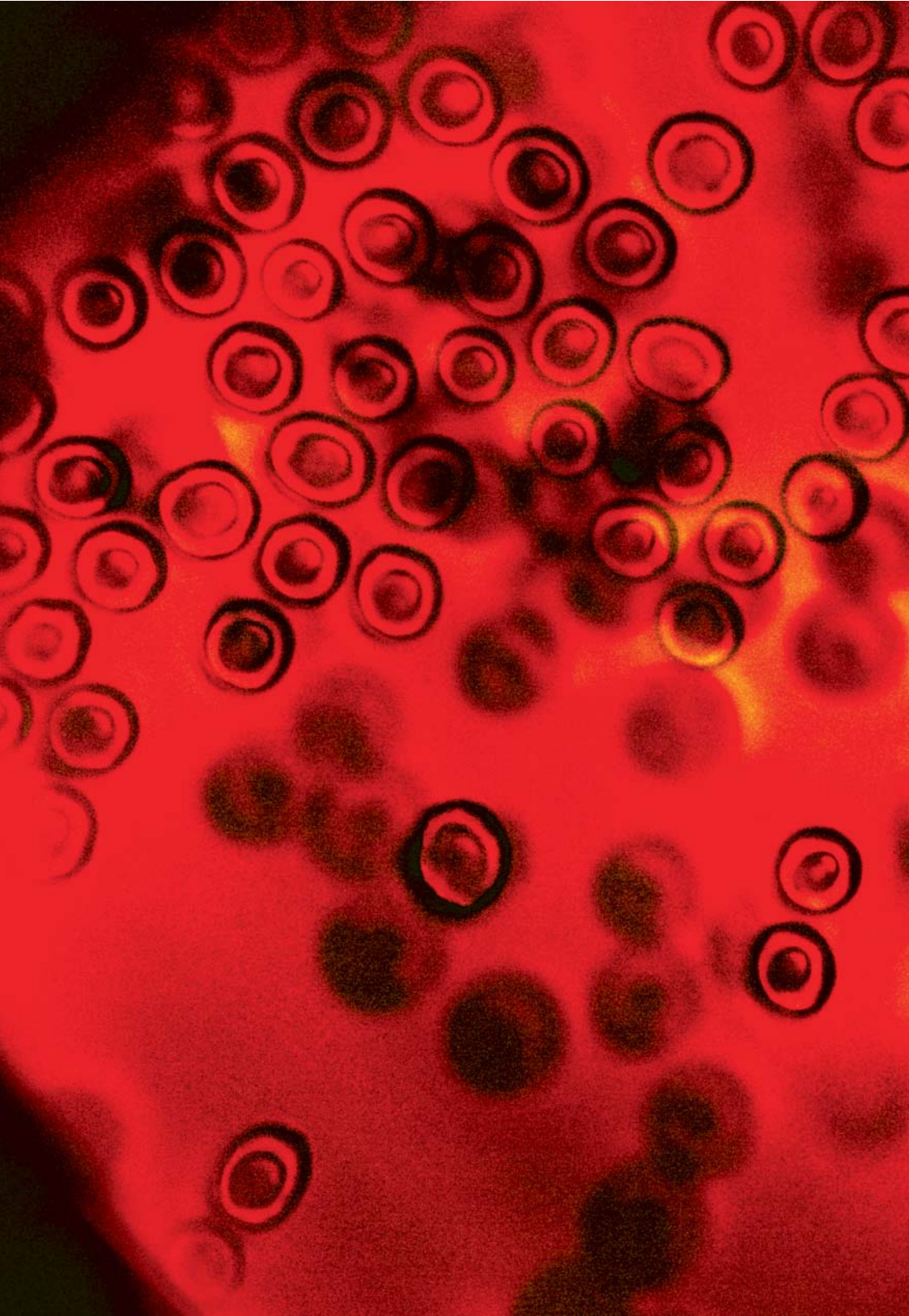
Union, which briefly held some land out of use in the mid-1990s, had returned most of it to use by 1997. Australia and Canada, both heavily dependent on dryland farming, are constrained in their capacity to increase exports by low rainfall. Argentina can substantially expand its exports, perhaps by half or more, but it is a relatively small country, exporting under 20 million tons per year. With little potential for this group to boost exports, China's water scarcity could soon become the world's grain scarcity.

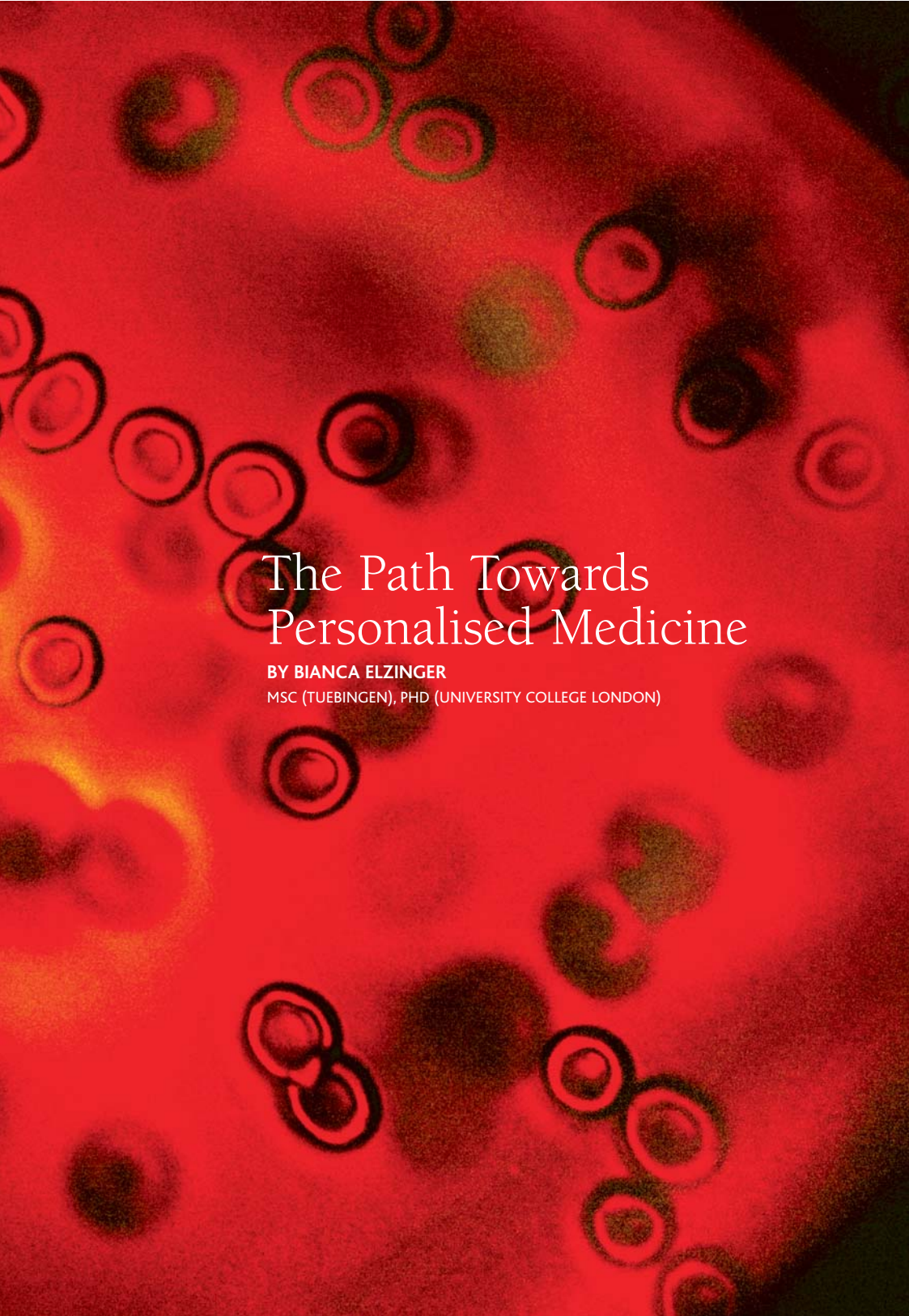
The question of whether or not these exports will be available has become a matter of acute concern for the low-income developing countries that already depend on grain imports to feed their growing populations. While China can afford to pay the elevated prices in a tight global grain market, even a modest rise in prices could – in some other, less affluent, countries – drain precious foreign exchange, boost local food prices, and trigger food riots.

Resolving the increasingly thorny political issues associated with water use and reallocation poses a challenge for the leaders in Beijing. Among these issues are the growing competition between the countryside and cities for available water supplies, inter-provincial conflicts between upstream and downstream water users, and the conflict between using water to create jobs and using it to maintain food self-sufficiency. More immediately, Beijing faces a choice: investing tens of billions of dollars to move 20 billion cubic meters of water per year from the South to the North versus diverting that water from agriculture to other uses in the North and importing the 20 million tons of grain that would otherwise be produced. Few issues will so pervade a country's political life as water scarcity will that of China in the decades ahead.

As we look back, it is pertinent to ask why we did not see this pressure on China's water resources coming sooner. In 1980, when China had roughly 1 billion people and the economic reforms were just getting underway, water supplies were generally sufficient to satisfy all needs. But as we look to the year 2030, when there will be not 1 billion poor Chinese but 1.5 billion rather affluent Chinese, we see a country that will need perhaps three times as much water to fully satisfy its demand. That water is not available. China's experience illustrates for all countries the importance of stabilizing population size soon enough to allow for gains in per capita consumption within the limits of their resource base.

The NIC study recommends establishment of a permanent U.S.-China agricultural forum to develop complementary agricultural strategies and to share technology in such areas as production and irrigation efficiency. We concur with that recommendation. If the world's two leading food producers can work closely together to protect their agricultural resource bases, while the world works to stabilize population, it will benefit not only each of those countries, but the rest of the world as well.





The Path Towards Personalised Medicine

BY BIANCA ELZINGER
MSC (TUEBINGEN), PHD (UNIVERSITY COLLEGE LONDON)

THE PATH TOWARDS PERSONALISED MEDICINE

BY BIANCA ELZINGER, MSC (TUEBINGEN), PHD (UNIVERSITY COLLEGE LONDON)

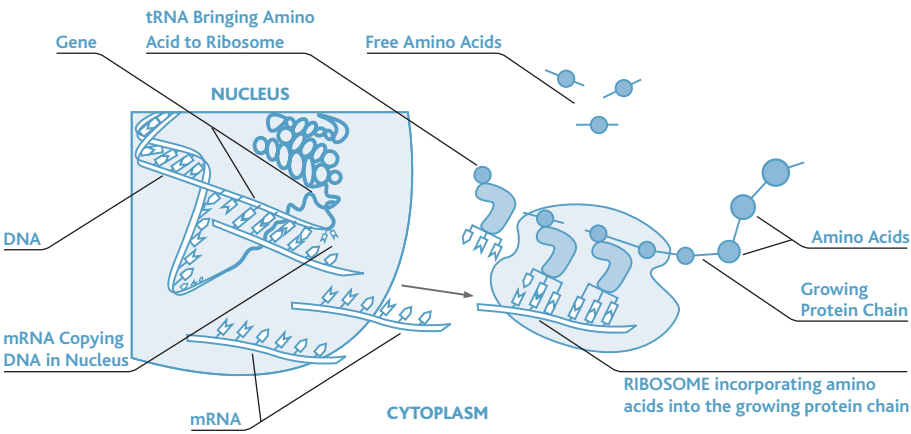
All organisms are composed of one or more cells, humans contain 75 to 100 trillion of them. Cells represent the building block of organisms and through cellular interactions, connectivity as well as communication is established. This active unit is comparable to a factory that produces products (proteins, chemical molecules) using machines (organelles). The components of a cell are proteins which make the active unit work and allow it to survive. Cells also contain within its nucleus the hereditary information (DNA) necessary for the regulation of their activities and the proper functioning of the organism. Studying the biology of living organisms and their components, which in many cases reduces to the activities of cells, be that in agriculture, food sciences or medicine, is the realm of biotechnology and the molecular biologist. The misbehaviour of biological signalling processes within cells can result in many diseases for which we have few answers.

Human health is dependant on both genetic factors and environmental influences. Diseases such as cystic fibrosis (an autosomal recessive trait) develop due to a specific genetic defect, while the development of cancer is characterised by a combination of inherited or random mutations and environmental factors. Whether a disease arises from changes of internal processes, such as inflammatory diseases (arthritis or psoriasis), or from invasion by pathogens (viral, bacterial and parasitic diseases), the understanding of the biological processes at the structural and regulatory level is proving critical and insightful in developing meaningful advances in drug development. Despite the undeniable importance of the mapping of the human (and many other species) genome, the underlying

mechanism of many diseases still remains to be elucidated. Understanding the pathology of a disease is essential but not sufficient to find a cure. Humans are complex and varied with their resilient nature being in part a consequence of this diversity. To harness these differences, future treatment options, most likely, will also become more varied. Thus, leading to medicine becoming personalised, more precisely targeted therapy depending upon an individual's genetic function and disease pathology.

Human DNA is made of 3.1 billion base pairs (also called nucleotides) with only 3 million (0.1%) base pairs showing variations (Single nucleotide polymorphism, SNP) between two non-related individuals. In addition to these SNPs other genetic changes such as mutations increase the heterogeneity of a human being or any organism. Depending on the position and nature of the SNP or mutation these changes have an effect on biochemical pathways and can influence susceptibility to medication and disease. Finding the association between subsets of variations and a disease process is challenging but progressing with the availability of novel high throughput technologies.

Despite the genetic diversity of species, the cell itself remains remarkably similar (in basic functional design) whether present in single cell organisms or in highly complex multicellular humans. The majority of cells have a nucleus containing DNA, with red blood cells being an exception. The organisation of cells into functional units, and the appropriate timing of cell differentiation and division is highly regulated and a complex process ultimately linked to the code in the DNA. Genes determine the structure of proteins which are the components of the cellular signalling network (see diagram below).

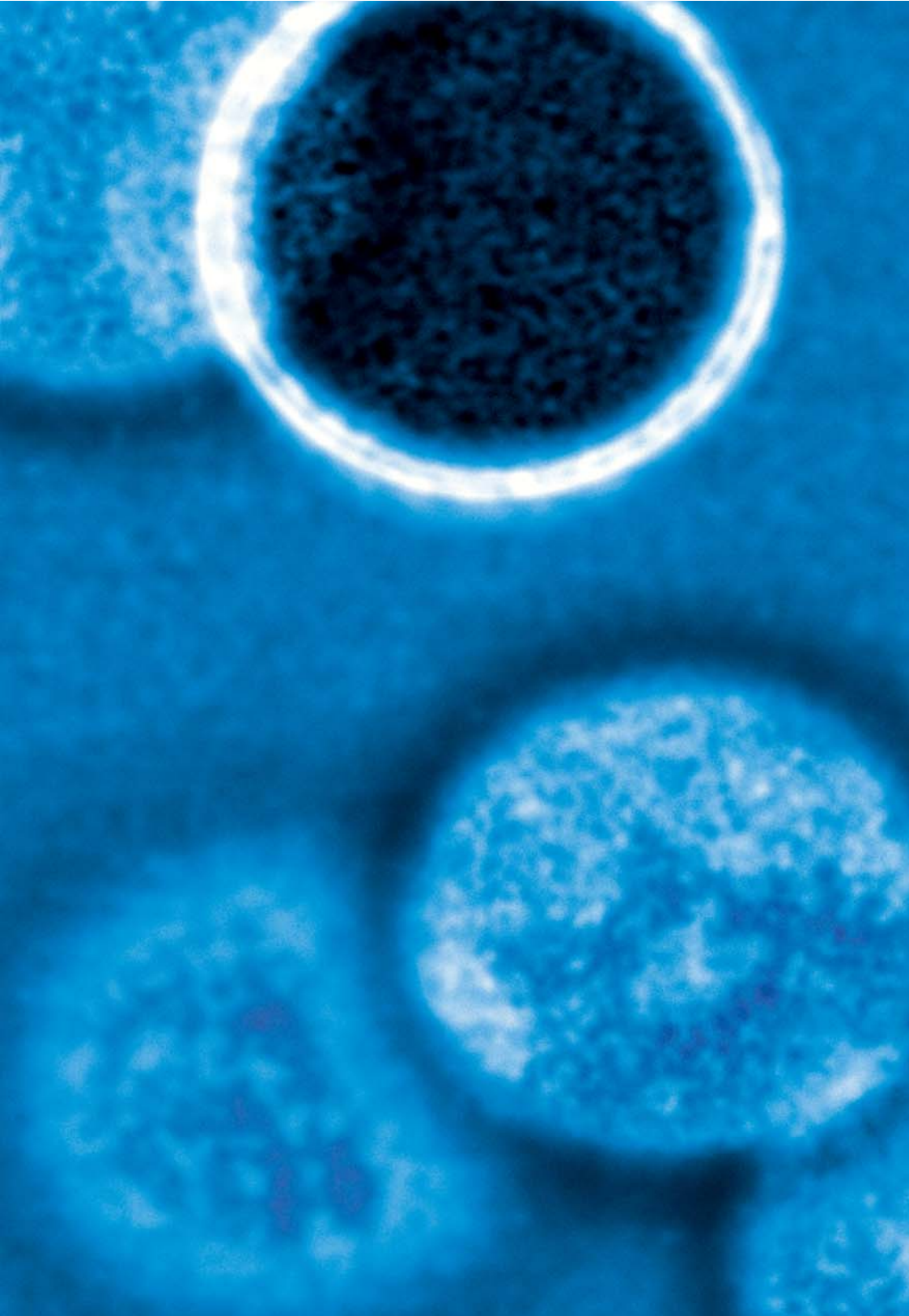


SOURCE: U.S. DEPARTMENT OF ENERGY HUMAN GENOME PROGRAM

Certain enzymes (eg. 'polymerases') copy a region on the DNA that holds the gene for a protein, this 'copy' mRNA (messenger RNA) is sent from the nucleus of a cell to the cytoplasm for processing by the cellular machinery (organelles) called ribosomes. These ribosomes, in combination with other enzymes, sequentially add amino acid building blocks according to the coding on the mRNA. The sequence of DNA nucleotides determines the choice of amino acid (of which there are 20), and the sequence of amino acids determines the primary structure of the protein. Once these chains have been synthesised, sugars are added and the complex then forms a characteristic shape. Modifications together with the structure of the protein determine the subsequent function and activity. Variation, including SNPs and mutations can cause significant changes to the amino acid sequences and ultimately lead to structural as well as functional differences.

Proteins make up the majority of cellular mass and are essential in the structure and function of all living cells. Proteins are involved in practically everything a cell is concerned with, from structural or mechanical roles through to regulatory functions such as signal transduction and metabolism. *As such determining the primary function, abundance, structure and interactions of proteins is essential to understand the biological process at work.* At any particular point in time tens of thousands of mRNAs and proteins are evident in a cell, depending on the current activities of the cell and the influence of a multitude of signals from the cell's environment. Identifying these particular mRNAs or proteins and understanding the interactions occurring within a cell is a significant challenge. The abundance of particular mRNAs and proteins can be detected in a variety of ways including hybridisation array technologies, immunofluorescence or immunohistochemistry. Differences in patterns of mRNA and protein expression between normal and diseased tissue samples can be useful in identifying the proteins and genes implicated in the disease. It is still nonetheless a mere snapshot in time within a larger system.

To determine whether a suspect gene is really implicated in the disease, and hence whether this gene or protein can progress scientifically to the status of a validated target for drug development, further substantiating tests are required. For example, scientists can 'knock-out' (eliminate) the gene to observe the effect in a number of models, from cell cultures through to worms, fruit flies, zebrafish or rodents. Alternatively they can inhibit, to varying degrees, the protein (rather than the gene) with technologies such as antisense or RNA interference and observe changes in the behaviour of the cell or phenotype of an organism.



The difficulty arises though, in that proteins are part of complex pathways or networks. Cells have elaborate communication mechanisms, essential for the proper functioning of any multicellular organism. These systems are reliant on various interactions between proteins and chemical molecules; both acting as messengers within as well as outside of cells. Once a cell receives an extracellular signal, an intracellular response is triggered through a signalling cascade ensuring the signal is correctly interpreted and directed to enable the cell to react accordingly. For example, a cell could interact with a growth factor, signalling differentiation or cell division, alternatively it may be a death signal or a variety of requests for the production of further proteins, such as hormones. Inhibiting a single component of the network may, for instance, trigger an alternate or possibly previously redundant pathway which in turn influences feedback or compensatory mechanisms.

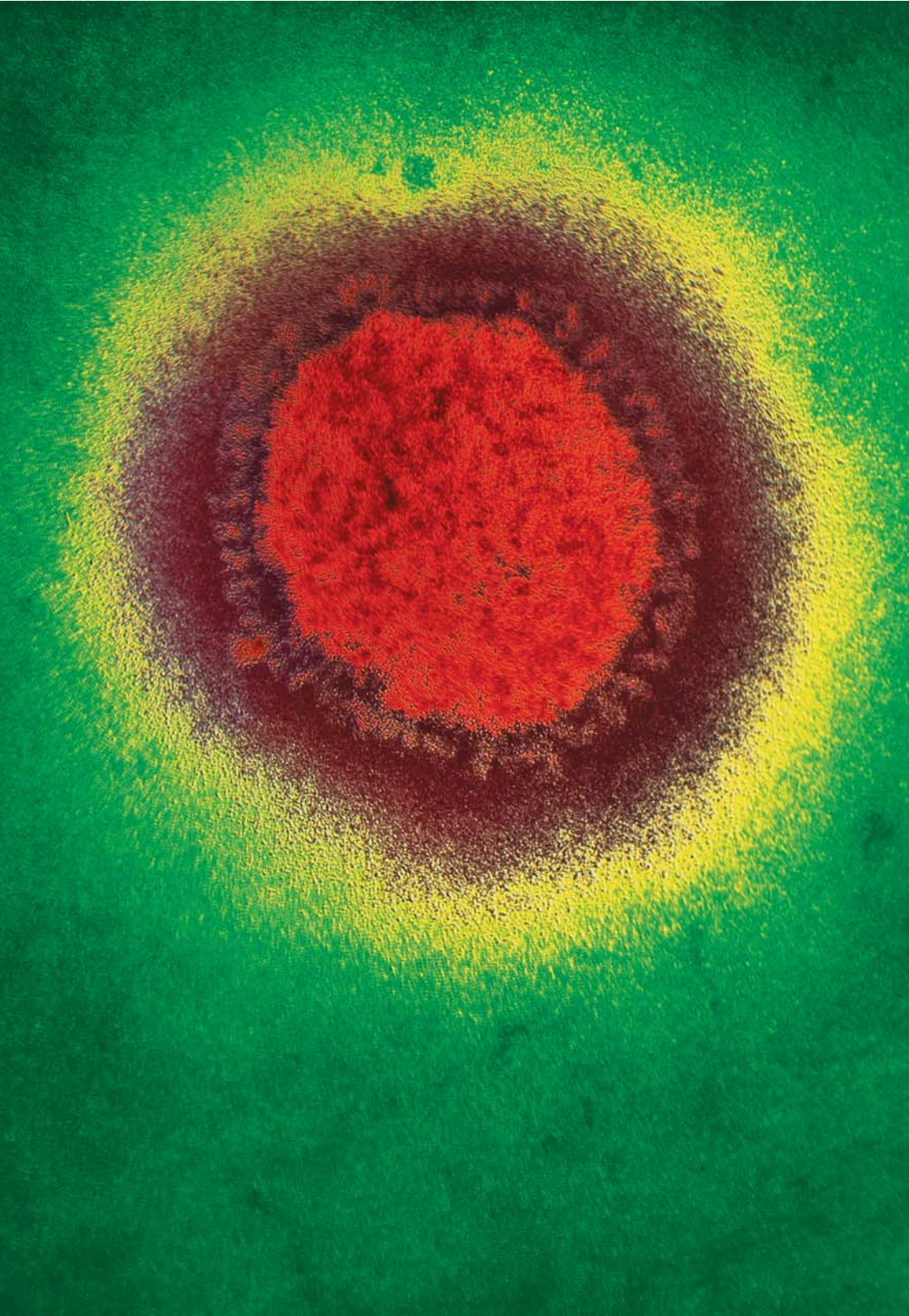
The volumes of data involved are staggering. There are over 30,000 genes in the human genome, each capable of producing a vast number of different proteins through various combinatorial mechanisms and modifications including sugar additions, phosphorylations as well as subsequent protein-protein combinations. The protein universe, *proteome*, of a cell at any given time adds another layer of complexity to be deciphered. Using techniques such as X-ray crystallography, nuclear magnetic resonance and diffraction technologies, the structure (shape) of proteins can be solved. Proteins can be grouped into many families, kinases, caspases, proteases, ion channels to name a few and whilst this grouping assists structural biologists in determining any individual protein's structure there is still much to learn. Computational methods have made great progress in helping to predict the shape of a protein from its amino acid sequence. Whilst the computational techniques have provided the clues, there is still a considerable effort required to fully define and characterise a protein, especially considering that not all proteins are amenable to being studied. To date, 25,000 proteins have had their structures solved and 6,000 have had their function determined.

The structure of the protein is relevant to its function and determines its binding. Understanding the shape and function allows researchers to design specific molecules to interfere with the proteins' activity. There is, intuitively, a compelling logic in developing a drug that directly targets the relevant protein for a disease. Perhaps a little less obvious but just as compelling is the notion that highly selective drugs (for their intended target) are less likely to cause the side effects prevalent from more systemic absorption or interaction. It is worth noting that there are many difficulties in targeting proteins and the majority may yet prove to be entirely unsuitable as targets for therapeutic intervention.

Many intracellular signalling proteins are like switches. The addition or removal of a phosphate group (phosphorylation) activates or inactivates the protein, changing its function within the signalling network or cascade. Many of the signalling proteins within a cell are protein kinases and in 2001 a major breakthrough for Chronic Myeloid Leukaemia (CML) patients occurred with the approval of the first selective tyrosine-kinase inhibitor, Glivec©. CML is a haematological disease caused by a reciprocal translocation between chromosomes 9 and 22. That is, a specific genetic change causing changes in the signalling network of blood cells leading to cancer. The molecular consequence is the fusion of parts of two genes, BCR and ABL, forming a fusion protein with a tyrosine kinase which continuously sends growth signals and fails to respond to control mechanisms. Glivec, through specific binding to this kinase, inhibits the aberrant signalling thus specifically stopping the growth of blood cells with this genetic defect. Compare and contrast this with the indiscriminate approach of many chemotherapeutic agents that broadly target 'dividing cells', the consequences of which are the random assaults on cells that should normally be dividing.

Protein kinases have proven to play a central role in the developing of various diseases and therefore an intense search for therapies targeting kinases is underway. Apart from kinases there are other proteins that play an important role in cell biology, including for example the tumour suppressor protein p53. This protein is central in dealing with genetic damage and subsequently initiating a repair response. Various mechanisms are at work ('checkpoints') that monitor the integrity of the cell's DNA and either allow or prevent the division of a cell. In the event that the DNA is damaged, various proteins are triggered to activate p53. Once activated p53 has many effects ranging from cell cycle (division) inhibition through to regulation of apoptosis (programmed cell death). These activities are mediated via various signalling pathways that p53 influences. As such p53 is key to maintaining healthy cells and eliminating damaged cells. Consequently, once p53 is impaired, its guardian function is inhibited and cells are able to grow despite damage. In over fifty percent of cancers, mutations in the p53 gene have been identified and thus the p53 pathway is of great importance when designing new cancer drugs. However, due to its ubiquitous activities its attraction as a target has been proving very difficult in developing an effective therapeutic intervention.

Despite the use of sophisticated technologies in the research laboratory, supported by the observation in 'model systems', and additionally armed with visualisation of the protein structure, rationally designing molecules that perfectly fit the target protein and have their activity confirmed in human trials has been challenging. There are still inevitable surprises to be expected until such time as we can develop the laboratory equivalent of 'whole human testing'. Discussions are emerging on the usefulness of animal models and the need to move more quickly into testing drugs directly in humans.



Some progress is being made. Last year saw the introduction of a 'chip' containing all known human genes. The 'chip', a glass or silicon wafer, has over a million molecules attached each representing a unique subset of a gene. DNA and mRNA (copy of a gene) can be isolated from cells (eg. tumour or normal cells), fluorescently labelled and applied to this gene chip. Through chemical interactions between the chip content and the cell samples, patterns of similarity or differences between tumour and normal cells can be qualitatively and quantitatively determined. Complex and still developing 'bioinformatics' routines can then guide the researcher in determining which genes are 'over or under expressing' their proteins and hence how the diseased tissue or cells might be behaving. The regulatory authorities and drug developers are currently assessing the adoption of this technology into the clinical trial processes to assist in understanding how and which patients might best respond to the therapeutic being tested.

Apart from the discussions regarding targeted drug development and the emerging plethora of targets, validated or hypothesised, the developments in the molecular diagnostic field are also significant. Understanding the effects of genetic variations (inherited or random), either on drug metabolism or on the susceptibility to a disease will, in many cases, precede the development of treatments. The wider adoption of patient profiling technologies should lead in some cases to earlier identification of a disease and assist in matching the patient with the appropriate drug. The response to certain drugs differs significantly between patients, even more so when concomitant therapies are in place. In many cases these differences can be traced to SNPs in particular genes. For example drug metabolism relies on a specific pathway in the liver, and this pathway can be genetically or functionally compromised, leading to difficulties in metabolising the drug with at times fatal results. The CYP450 gene family codes for a number of enzymes responsible for the breakdown of a large number of the current drugs on the market, polymorphisms in this gene influence not only the safety of drug metabolism but their efficacy. A gene chip is in development to determine a patient's CYP450 profile and hence suitability for a particular drug, which when used in the clinical trial process might result in lower adverse reactions and improved efficacy testing. It may also contribute to fewer clinical trial failures. Progression of this chip from the clinical trials to the physician's clinic should occur within the next few years. However, whether or not the ethical or financial considerations will support these early diagnostics, prognostics even, in the absence of effective treatments remains to be seen.

Whilst the molecular biologists will ultimately explore the complexities of protein networks and their role in disease, there is no doubt that corporate imperatives and human competitiveness will also see many attempts at progressing drug development more rapidly than the acquired knowledge can reasonably support. Despite the construction of exquisite and theoretically rational, scientifically validated hypothesis of a disease mechanism, novel therapeutic treatment will, inevitably, suffer the difficulties of application in the clinic. Patients are heterogenous by virtue of a wide range of genetic differences and accumulated environmental influences, not least of which, could be the effects of prior treatments and their motivations to persist in treatment.

Nonetheless, two emerging trends encourage us to believe that we may see effective treatments progress faster than historic drug development productivity statistics would suggest. Both relate to the adoption of bench research techniques into the clinical trial process. Firstly, the biological molecules involved in researching a particular disease or defect in the protein network (for example antibodies) can be directly developed into both a diagnostic tool and a therapeutic treatment, without the need to invoke the significant resources entailed in traditional chemical drug identification. Secondly, the wider use of genetic or protein expression patterns to identify those patients most likely to respond to a specific treatment. Increasing the specificity of treatments may reduce the therapeutic indications any one drug may garner and patient identification technologies (gene chips or biomarkers) may focus the commercial potential. However, the benefits to patients and the reduction in the wastage of ineffective treatments should, ultimately, result in (economic and operational) productivity improvements from the research laboratory to the physician's clinic.

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

	1 YEAR	3 YEARS (COMPOUND PA)	5 YEARS (COMPOUND PA)	SINCE INCEPTION (10 YEARS) (COMPOUND PA)	SINCE INCEPTION (CUMULATIVE)
PCL	**26.9**	**12.2**	**22.2**	**18.3**	**437.1**
MSCI*	**19.4**	**-9.2**	**-2.7**	**7.6**	**108.9**

SOURCE: PLATINUM AND FACTSET

* MORGAN STANLEY CAPITAL INTERNATIONAL WORLD ACCUMULATION NET RETURN INDEX

CHAIRMAN'S REPORT 2004

Investment Performance

It is pleasing to report that in the 12 months to 30 June 2004 Platinum Capital's net asset value increased by 26.9% pre-tax and by 20.5% after allowing for all tax liabilities both realised and unrealised. For a comparison the benchmark Morgan Stanley Capital Index world shares rose 19.4% for the 12 months.

Since its inception in 1994 the long term annualised appreciation of the Company on a pre-tax basis has been 18.3% compared to the return from the MSCI of 7.6%. The comparable return from the Australian All Ordinaries Accumulation Index has been 10% annually over the 10 years.

Dividends

A fully franked final dividend of 10 cents is recommended, making a total of 15 cents for the full year. As previously stated, but worth repeating, 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

In my last report I advised that in accordance with the ASX's Corporate Governance requirements the Directors' had resolved to appoint another independent non-executive Director to the Board and the Audit Committee, an event that needed to occur before 1st July 2005. I am pleased to advise that Mr Bruce Coleman has offered to join the Board and become a member of the Audit Committee.

Mr Coleman has worked in the financial services and investment industry in Australia since 1986 during which time he has held a number of senior investment and executive positions. Most recently he was Chief Executive Officer of MLC Investment Management from 1996 to April 2004. He has also served as a Director of MLC and various other companies within the Wealth Management division of National Australia Bank.

As a consequence of Mr Coleman's availability Mr Halstead resigned from the Audit Committee so as to achieve a majority of non-executive and independent Directors' on the Audit Committee in accordance with the ASX's Corporate Governance requirements.

The Board now comprises an equal number of independent non-executive and executive Directors. The ASX's Corporate Governance requirements recommend a majority of independent non-executive Directors. Your Board has determined that the current mix is appropriate given the size and specialised nature of the Company.

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

Outlook for 2004 – 2005

As has been said elsewhere, when things can't get any better they won't. Corporate profits in the US are at record highs and will before too long have to cope with tightening fiscal and monetary policies, strong oil and gas prices, the scrapping of corporate tax breaks and probably slowing demand. The Manager believes that we have seen the peak of corporate earnings growth and that market advances will be limited in the short term, particularly outside of Asia.

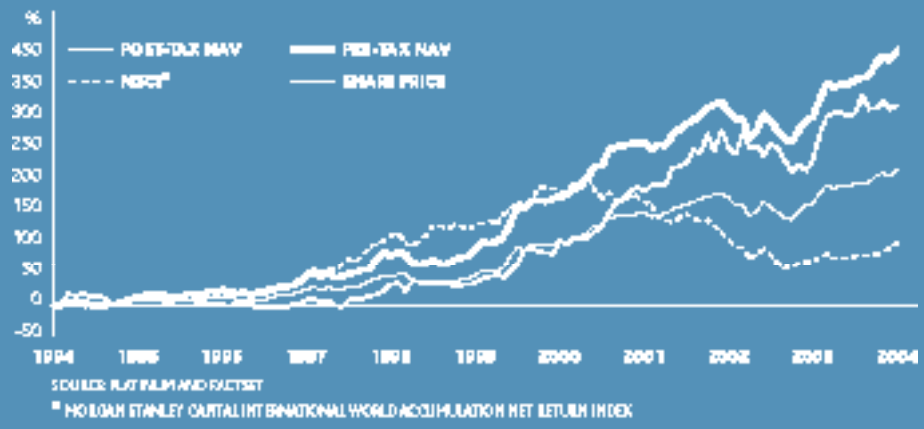
Finally

Last year I noted that "Kerr Neilson and his colleagues are very good at what they do". The performance for the year is a reflection of this as are the less obvious qualities inherent in their business, viz. the attention given to corporate governance, systems, people management, key relationships and so on.

So once again I express appreciation and admiration for their efforts along with those of my fellow Directors'.

Graeme Galt Chairman

PCL NAV (PRE AND POST-TAX), **SHARE PRICE VS MSCI INDEX** (CUMULATIVE RETURN SINCE INCEPTION)



SOURCE: PLATINUM AND FACTSET

* MORGAN STANLEY CAPITAL INTERNATIONAL WORLD ACCUMULATION NET RETURN INDEX

INVESTMENT MANAGER'S REPORT

Performance

Share prices lost momentum in the June quarter as doubts crept into investors' minds. The emerging markets of Asia and Latin America mostly declined, by between 1% and 14%, while growth in Europe and America ranged between zero and +8%. The Yukos affair hurt sentiment towards Russia badly with that market selling off by 20%. The wash-up from all this was an advance by the Morgan Stanley World Index of 1.6% when measured in local currency. For the year, this index is up 21%. However, the rebound of the US$ in the quarter saw the A$ fall from $0.76 to $0.70 and this translated into a gain by the World index of 10.6% in A$ terms. The annual figure was 19.4%. This currency move was to the detriment of Platinum's short term performance as we had low exposure to the US currency. In addition, our emphasis on Asia, which has tended to be weak recently, was disadvantageous. Hence the Company underperformed during the quarter, achieving only a 4.4% pre-tax gain. We outperformed for the full year, however, with a pleasing 26.9% advance.

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

30 APRIL 2004	31 MAY 2004	30 JUNE 2004
169.87	**168.45**	**172.51**

SOURCE: PLATINUM

Performance (continued)

As one would expect in a year of recovery, the cyclical industries way out-performed the defensives. Health care and telecommunications, the two worst performers had specific problems; the pharmaceutical giants suffering from patent expiries, disappointing drug pipelines and the latent threat to prescription prices, while telecoms were threatened by the internet.

MSCI* WORLD INDEX INDUSTRY BREAKDOWN (A$)

SECTORS	QUARTER	1 YEAR
MATERIALS	**9.2%**	**29.4%**
INDUSTRIALS	**13.8%**	**26.5%**
INFORMATION TECHNOLOGY	**9.4%**	**21.9%**
ENERGY	**15.9%**	**21.4%**
CONSUMER DISCRETIONARY	**10.0%**	**19.7%**
FINANCIALS	**6.6%**	**18.2%**
CONSUMER STAPLES	**10.9%**	**15.4%**
UTILITIES	**8.7%**	**12.4%**
HEALTH CARE	**12.6%**	**5.4%**
TELECOMMUNICATIONS	**5.8%**	**5.0%**

SOURCE: BLOOMBERG

* MORGAN STANLEY CAPITAL INTERNATIONAL WORLD ACCUMULATION NET RETURN INDEX

A conspicuous development has been the massive out-performance of small capitalisation companies versus large caps in the last three and a half years. Valuation differentials have reversed with larger companies now typically being on lower valuations than small companies. More recently there has also been a widening of the valuation gap between "high beta" and "low beta" stocks. Having had some benefit from this trend since 2000, we have been adjusting our position in the expectation of a reversal.

Currency

We sense that the highly lop-sided position that many investors had against the US$ has been squared. This, together with our longer term concerns, has caused us to exit the US currency again in favour of the Yen and Euro. We added to the hedge into A$, which is now around 29%, although we are not unreservedly optimistic as to its prospects versus the Euro and believe it will be slightly weaker than the Yen.

Changes to the Portfolio

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	JUNE 2004	MARCH 2004
WESTERN EUROPE	**31%**	**29%**
JAPAN	**30%**	**30%**
EMERGING MARKETS (INCLUDING KOREA)	**13%**	**16%**
NORTH AMERICA	**13%**	**12%**
AUSTRALIA	**2%**	**2%**
CASH	**11%**	**11%**
SHORTS	**34%**	**29%**

SOURCE: PLATINUM

Platinum has been relatively inactive in share trading terms recently. The main emphasis being on switching out of stocks where the market price ran ahead of real growth prospects and strengthening positions in neglected areas. In Japan this included adding to the Toyota group of companies at the expense of the likes of Nippon Yusen K.K., Mitsubishi Heavy Industries and Citizen Watch. The latter has been very strong on profit performance and the appeal of its electronic components subsidiary. We switched out of Yamanouchi Pharmaceutical to add to the position of its rival, Takeda Chemical. The valuation gap had become too great on account of the market's excitement with Yamanouchi's near term prospects, and its neglect of Takeda's possibly stronger longer term potential.

One new position was Sumitomo Mitsui Financial Group which, along with Mitsubishi Tokyo Financial, which we also own, we see as being in a position to take advantage of the much weakened banking sector and to expand as a diversified provider of services to the consumer.

In the US, we have added to Agere and Agilent and have shuffled the biotechs after losing Tularik to a bid from Amgen.

In Europe, the most significant new purchase was Alcatel. This traditional provider of telephone switchgear and other electrical engineering services has morphed into a more streamlined company to focus on *next-generation* communication. By this is meant high speed internet access, Voice over Internet Protocol (VoIP), satellite and mobile communication, as well as converting traditional copper wired networks to function as fully digital systems. These complex solutions go by acronyms like DSLAM (digital subscriber line access multiplexing) or FTTH /FTTN (fibre to the home or to the node). Technical developments have been extremely useful in upgrading some existing networks which were previously threatened with obsolescence. So now we find that DSLAMS are allowing the telecoms to continue to use their installed paired copper wires to deliver full video, high speed data and voice to the home.

Changes to the Portfolio (continued)

FTTH is an even more elegant solution, giving remarkable bandwidth with the added attraction of low maintenance costs, though installation costs are high.

Large telecom companies are being forced to spend huge sums on capital investments as the internet has permanently changed the structure of their business. Cable TV operators and satellite transmission are eroding their position while the regulatory environment has deteriorated and often forces them to give new competitors access to their networks.

Alcatel is well placed to supply this demand. Having dominated the global market in traditional closed circuit switching, it has an excellent understanding of the telecoms needs in a digital convergent world. Moreover, it has developed the necessary *kit* (software and hardware) to meet their needs. It is also able to help large corporations move to VoIP by virtue of being a global leader in this arena. The company is behind others in third generation mobile technology, but that may be compensated in due course by its leading position in optical networking. This division has seen sales more than halve since the glory days but metro DWDM (dense wavelength division multiplexing) is improving and prospects are brightening. Alcatel has virtually always had a lower rating than its peers, like Ericsson which we also own, but this valuation gap has now become excessive.

BREAKDOWN OF PLATINUM'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	JUNE 2004	MARCH 2004
CYCLICALS/MANUFACTURING	TOYOTA MOTOR, SCHINDLER, SIEMENS, LINDE, OCÉ	**21%**	**23%**
FINANCIALS	CREDIT AGRICOLE, MITSUBISHI TOKYO FINANCIAL, MITSUI SUMITOMO INSURANCE, NORDEA	**16%**	**16%**
TECHNOLOGY/HARDWARE	AGERE, INFINEON TECH, SAMSUNG, AMD, SUN MICROSYSTEMS, NEC	**9%**	**9%**
MEDICAL	TAKEDA, SCHERING, NOVARTIS, MERCK KGaA, GLAXOSMITHKLINE	**8%**	**8%**
RETAIL/SERVICES/LOGISTICS	VEOLIA ENVIRON., DEUTSCHE POST, HORNBACH, MITSUBISHI CORP	**8%**	**8%**
CONSUMER BRANDS	HENKEL, ADIDAS SALOMON, LOTTE	**8%**	**7%**
GOLD AND OTHER	SHELL, BARRICK GOLD, NEWMONT MINING GOLD FIELDS, NORANDA	**7%**	**7%**
SOFTWARE/MEDIA	SKY PERFECT COMMUNICATIONS, SEOUL BROADCASTING. NEWSCORP	**7%**	**7%**
TELECOMS	ALCATEL, ERICSSON, NTT DOCOMO	**5%**	**4%**

SOURCE: PLATINUM

Commentary

The downward revision of the US GDP numbers for the first quarter, together with some disappointing releases and company announcements, should be treated with caution as until now most of the indicators suggested the lure of cheap money was working its magic to induce a solid expansion of that economy. One explanation may be that householders are responding to pressure on real wages from the delayed impact of higher costs, notably fuel, and the expiry of the tax refunds. We subscribe, however, to the view that employment will gradually rise in synchrony with the expansionary trend and that this will allow real wages to grow. The recovery has now been in effect for around 2.5 years and it is too early to conclude that a significant shift in consumer behaviour has taken place, particularly as we have not been able to detect as yet any signs of debt aversion.

The main distortions to the US economy remain the high and still expanding levels of government and consumer debt. The latter is doubtless partly due to the abnormally low level of short term interest rates, pushed down by the Federal Reserve Board to soften the impact of the 2000/2001 recession and held down to encourage the subsequent recovery. Even after the recent 25 basis points rise to 1.25%, the cost of overnight money is still about 1.75% below the base line of the 1994 trough.

It is widely believed that short rates are now on a rising trend and will have to be re-established at more normal levels to head off inflationary expectations and check house price rises and credit card borrowings. But it is very interesting to observe that long term rates have not reflected this. On the contrary the yields on US long bonds have been edging down for some while, without any evidence of foreign government buying or other extraneous influences. If these market messages are to be believed we must conclude that while specific pressures in certain areas of the US economy need to be controlled there are few fears of widespread inflation.

This is by no means unreasonable. Contrary to the popular view that inflation is a more or less normal state, it can be shown that there have been long periods of economic history when prices have been stable to flat. In his excellent book, *The Great Wave**, David Hackett Fischer identifies four episodes of great waves of inflation since the middle ages each followed by a protracted period of price stability. These coincided with the Renaissance, the Enlightenment and much of the 1800s. This latter episode is particularly interesting for it was a period which included civil wars, mass population growth and migration, and, indeed, the discovery and production of significant amounts of gold. Prices were flat for some 80 years. They spiked around times of war but then fell back to earlier levels. What is more, this price stability seems to have been evident across continents. In each of these periods of price stability, Fischer identifies that real wages rose, returns on capital diminished as measured by rents on land and bond yields, and importantly, inequalities narrowed.

Commentary (continued)

Clearly this addresses decades rather than the much shorter time horizons focused on by stock markets. However, we have long believed that the early 1980s witnessed the taming of inflation in developed countries so that we may experience a similar pattern to that seen in the 19th century. Behavioural psychology can explain the unwillingness of investors to believe in this new paradigm. This is particularly so when historically the effects of inflation have so helped borrowers. As many shareholders will know, we strongly believe the property boom in the US, Australia, the UK etc is a direct consequence of tax and interest rate distortions, combined with a latent trust in the "inflation bail-out". Globalisation, with its facilitation of the free movement of goods, capital and technology, is clearly exerting significant downward pressure on the prices of traded goods and services. We are not suggesting all prices will be flat, on the contrary we suspect that many commodities will reach new higher clearing levels as a consequence of expanded markets. These will, however, be off-set by continued falls in the prices of some traded goods.

In short, we believe it impossible for the US economy to be continuously fuelled by ever rising levels of borrowing. But in the absence of widespread inflation we do not accept that sharp rises in interest rates will be needed to curb current excesses. It must be feared, though, that currency instability is likely to play a part in the adjustment process.

Turning to Asian markets, the curious phenomenon has been the absence of follow-through buying by domestic investors. Back in the halcyon days of the 1990s "Tiger economies", domestic investors exhibited great enthusiasm for their share markets. Valuations were high, PEs typically in the high 20s to 30s, and there was no interest in discussing inscrutable subjects such as the marginal return on factor inputs etc. Now these economies are growing again, financial rectitude has returned at both the national and company level and compliance is stronger, but foreigners are the only interested players. The scars of the 1998 IMF crisis do not seem to have healed.

If valuations are to be maintained domestic investors will need to be tempted back into markets as it is likely that foreigners will follow their traditional pattern and take profits. Substantial switching has already been seen out of China, India, Korea and Thailand into Japan. The repatriation of foreign funds could also put pressure on exchange rates.

Some observers are cautious in the aftermath of the Indian election and the formation of a new coalition government under the Congress party. Our interpretation is that the decline of the stock market reflects more an inevitable cooling off after a very strong run.

The compromises that the new coalition may be forced to accept are in our view no more worrying than the dangerous Hindu nationalist policies that the BJP periodically enforced. The economy is continuing to grow healthily and under Prime Minister Manmohan Singh reform is still fully on the agenda.

It is too early to assess the degree to which the current credit freeze will impact China. Inflation, particularly in basic foods, is rampant with some basic grain prices up over 30% on last year, and the official CPI is trending upward with May prices being 4.4% higher than last year. Early reports on the sale of cars and heavy construction machinery suggest a sharp contraction of demand, 20% and 60% respectively. However, the impact of less visible influences, such as the loss of revenue to the Provincial authorities from the cessation of land sales and reductions in the sale of the stock of new housing, has still to be felt. At this stage we are inclined to believe that a manageable slowing will be achieved from what was evidently an unsustainable and *disorientating pace*. We are mainly relying on the sheer excitement of the new order to carry the economy over this adjustment phase.

An issue that we feel receives less emphasis than it should is the country's impending water crisis**. Industrialisation and a higher protein diet is placing an unsustainable burden on available water supplies. Domestic planners are increasingly concerned about the faltering flow of the Yellow River which is showing a worsening trend with the river water failing to even reach the coastal province of Shandong for extended periods of the year. In addition, the depletion of aquifers is evident with the water table of the North China plain falling precipitously. This area accounts for 40% of the nation's grain harvest, which itself is 75% dependant on irrigation. There are schemes to divert some 40 billion cubic metres of water a year from the Yangtze but these flows are relatively insignificant in terms of the increasing needs caused by rapid urbanisation and industrialisation. More efficient usage will be essential particularly as statistics show the country to be way in excess of world standards in terms of tonnes of water used per tonne of steel or paper produced. The longer term *implications for employment and agricultural prices is of world significance*.

As China continues to grow, albeit at a less hectic pace, its neighbouring suppliers like Japan and Korea will enjoy the slip stream. These economies are anyway gaining momentum and we see no reason to revise our optimistic view regarding their prospects. As is the case in Europe, rather than macro economic views it is the quality of individual companies and their prospects that drives our portfolio construction.

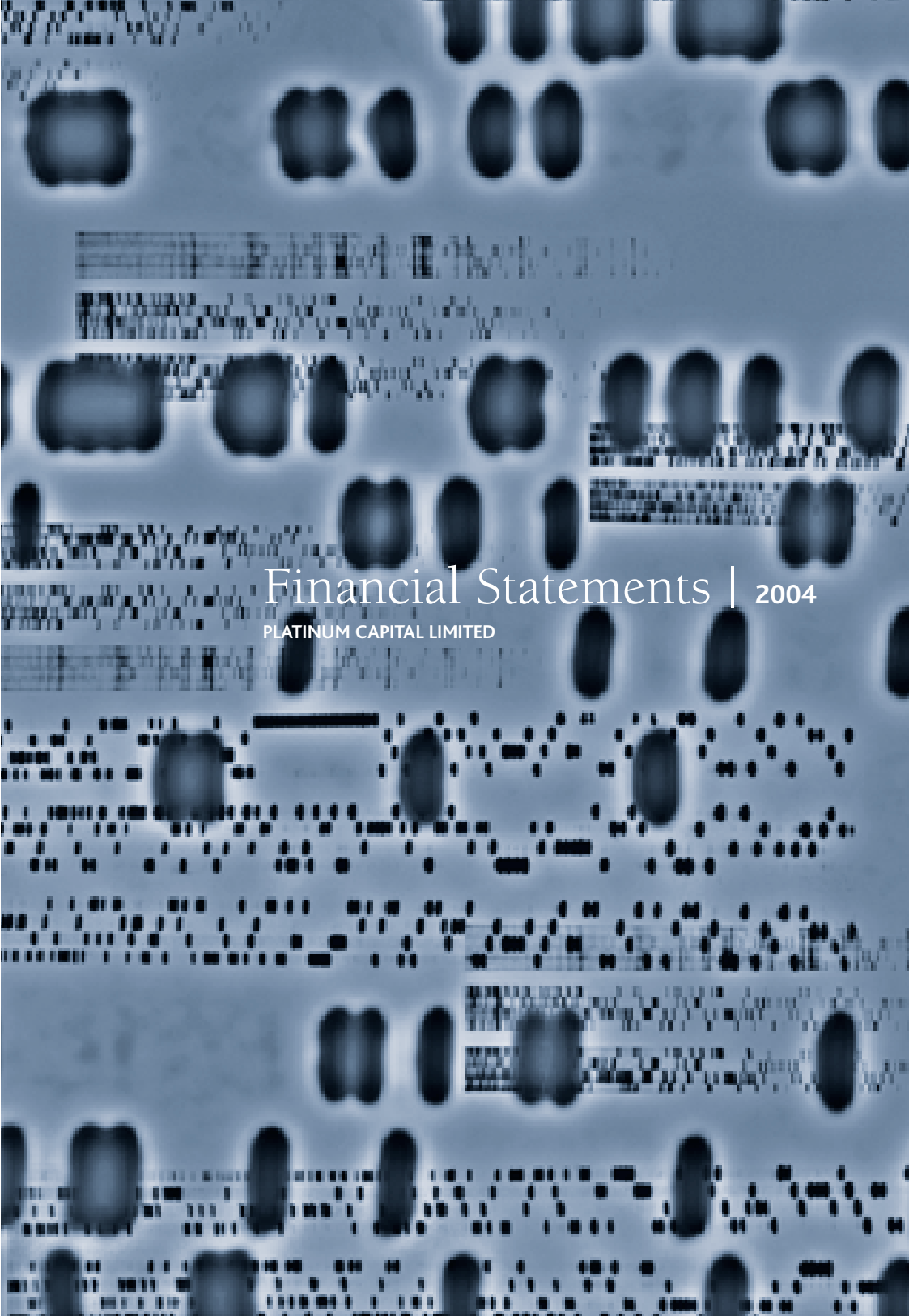
Conclusion

World growth seems to be broadening but inflation is rising and consumers' real incomes are under pressure. As is common, analysts' forecasts are getting well ahead of themselves and are likely to lead to disappointments. We believe the peak of corporate earnings growth has been crested which, together with a tightening of liquidity, will limit overall market advances. Asia is behind in this evolution and so has more room for continued broad-based share price appreciation.

Kerr Neilson Managing Director

* The Great Wave, David Hackett Fischer, 1996, Oxford University Press

** For further information, please see World Watch Magazine, July/August 1998 issue, Worldwatch Institute



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PLATINUM CAPITAL LIMITED

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 2 August 2004.

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	935
1,001 – 5,000	5,304
5,001 – 10,000	3,040
10,001 – 100,000	2,628
100,001 and over	55
Total number of holders	11,962
(ii) Number of holders of less than a marketable parcel	148
(iii) Percentage held by the 20 largest holders	10.26%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of equity securities as at 2 August 2004 are listed below:

	Number of shares	%
RBC Global Services Australia	1,919,996	1.65
Questor Financial Services Limited	1,321,264	1.14
Cox Bros Coffs Harbour Pty Limited	1,195,893	1.03
Frank Hadley Pty Ltd	795,883	0.68
UBS Private Clients Australia Nominees Pty Limited	647,326	0.56
Austair Pilots MBF Nominee Co Pty Limited	500,000	0.43
NIZIN Holdings Pty Limited	499,061	0.43
Tower Trust Limited	496,662	0.43
Feboco Investments Pty Ltd	486,992	0.42
Dr Russell Kay Hancock	480,500	0.41
J P Morgan Nominees Australia Limited	462,170	0.40
National Nominees Limited	398,887	0.34
Cox Bros Coffs Harbour Pty Limited	397,960	0.34
Frank Hadley Pty Ltd	367,707	0.32
Forbar Custodians Limited	335,938	0.29
Questor Financial Services Limited	334,512	0.29
Queens Hill Pty Limited	324,019	0.28
Mr Lloyd James Christie	323,009	0.28
Custodian Services Limited	311,916	0.27
Man Securities Limited	311,829	0.27

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	22 October 2004
Ordinary Shares trade Ex-Dividend	25 October 2004
Record (books close) date for Final dividend	29 October 2004
Final dividend paid	12 November 2004

These dates are indicative and may be changed.

In respect of the year ended 30 June 2004 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.

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

Bruce Coleman was appointed a Non-Executive Director on 10 June 2004.

Principal Activity

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

Trading Results

The net profit of the Company for the year was $19,147,000 (2003: loss $2,274,000) after income tax benefit of $1,655,000 (2003: expense $3,653,000).

Dividends

Since the end of the financial year, the Directors have recommended the payment of a 10 cents per share ($11,626,224) fully franked dividend payable to Shareholders on 12 November 2004.

A fully franked interim dividend of 5 cents per share ($5,770,086) was paid on 27 February 2004.

A fully franked final dividend of 10 cents per share ($11,379,987) for the year ended 30 June 2003 was paid on 10 November 2003.

Review of Operations

The operating profit before tax was $17,492,000 (2003: $1,379,000) and a profit of $19,147,000 (2003: loss $2,274,000) after tax. Income tax benefit for the year was $1,655,000 (2003: tax expense $3,653,000).

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.

The Company is required to adopt International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board from 1 July 2005.

The Company has a plan for the transition to IFRS during the year ended 30 June 2005. This plan covers the key areas of the transition including:

- the impact on transactions entered into by the Company and their impact on the financial report;
- any financial reporting accounting policy changes;
- any related IT systems changes; and
- communication of implications to Shareholders.

Rounding Off of Amounts

The Company is of a kind referred to in the Australian Securities and 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.

Remuneration Report

Principles Used to Determine the Nature and Amount of Remuneration

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 remuneration of the Directors is not linked to the performance of the Company. There are no Executives or employees of the Company.

Directors' fees

Non-Executive Directors' base remuneration is reviewed annually.

Retirement benefits for Directors

No retirement benefits are provided to Directors.

Other benefits and incentives

No other benefits and incentives are paid to Directors.

Details of Remuneration

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

	Fee $	Superannuation $	Total $
GW Galt	55,000	4,950	59,950
PW Clarke	50,000	4,500	54,500
BD Coleman	2,821	254	3,075
	107,821	9,704	117,525

Remuneration Report (continued)

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. Accounting Standard AASB 1046 requires remuneration made available indirectly to Directors by personally-related entities be disclosed. Platinum Asset Management is a personally-related entity of the three Executive Directors. The Standard *deems* some portion of the remuneration paid by Platinum Asset Management to its employees to be in relation to managing the affairs of this Company. Platinum Asset Management has not made any determination as to what proportion of its employees' remuneration relates to this Company. Platinum Asset Management paid: WKS Neilson a salary of $200,000 (2003: $190,000) and superannuation of $11,002 (2003: $10,519); AM Clifford a salary of $170,000 (2003: $170,000), a bonus of $200,000 (2003: $100,000) and superannuation of $11,002 (2003: $10,519); RM Halstead a salary of $170,000 (2003: $170,000), a bonus of $200,000 (2003: $100,000) and superannuation of $11,002 (2003: $10,519).

Service Agreements

Remuneration and other terms of employment for the Non-Executive Directors are formalised in service agreements. The Executive Directors do not have service agreements, as they are employees of the Investment Manager, Platinum Asset Management.

Graeme W Galt, Chairman and Non-Executive Director

- Commenced on 25 July 2002.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the year ended 30 June 2004 of $59,950.

Peter W Clarke, Non-Executive Director

- Commenced on 15 April 1999.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the year ended 30 June 2004 of $54,500.

Bruce Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the period ended 30 June 2004 of $3,075.

Remuneration Report (continued)

Share Base Compensation

No shares or options are granted to Directors.

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.

Directors' Insurance

During the year, the Company incurred a premium in respect of a contract for indemnity insurance for the Directors and Officers of the Company named in this report.

Executives

The Company has no employees or executives other than the Directors.

Information on Directors

Graeme W Galt MBA, BCom, FAICD

Independent Non-Executive Director and Chairman for two years. (Age 64)
Member of the 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 a Director of Bangarra Dance Theatre and Chairman of Centre Circle.

Peter W Clarke BSc(Econ)

Independent Non-Executive Director for four years. (Age 68)
Chairman of the 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.

Information on Directors (continued)

Bruce Coleman BSc, BCom, CA

Independent Non-Executive Director and member of the Audit Committee from 10 June 2004. (Age 54)

Mr Coleman has worked in the Finance and Investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. He has held various directorships within MLC Limited, Lend Lease and the National Australia Banking group.

Kerr Neilson BCom, ASIP

Managing Director for ten years. (Age 54)

Relevant interest in 324,020 shares in the Company.

Appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Asset Management, the Company's Investment Manager. Prior to Platinum Asset Management, he was an Executive Vice President at Bankers Trust Australia Limited. Previously he worked in both the UK and South Africa as an investment analyst and fund manager.

Andrew M Clifford BCom(Hons), ASIA

Director for ten years. (Age 38)

Relevant interest in 81,004 shares in the Company.

Appointed a Director of the Company upon incorporation. He is 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 ten years. (Age 46)

Member of the Audit Committee, until June 2004.

Relevant interest in 64,804 shares in the Company.

Appointed a Director of the Company upon incorporation. He is 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. Previously 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 2004 and attended by each Director.

	Board Meetings		Audit Committee Meetings	
	Held while a Director	Attended	Held while a member	Attended
PW Clarke	6	5	5	4
GW Galt	6	5	5	5
DB Coleman (appointed 10 June 2004)	1	1	–	–
WK Neilson	6	5	–	–
AM Clifford	6	6	–	–
RM Halstead	6	6	5	4

Malcolm Halstead was a member of the Audit Committee until he was replaced by Bruce Coleman on 10 June 2004.

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 2004

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. Whilst a majority of Non-Executive directors is recommended by the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Board has determined that equal representation is appropriate given the size of the Company and its specialised nature.
- 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.

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.

The Board of Directors (continued)

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 advisor 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.

The Board of Directors (continued)

Chairman and MD – Division of Function

The Chairman is responsible for leading the Board, ensuring that the Board's 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 of Directors (continued)

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 Audit Committee consisted of three Independent Non-Executive Directors, namely:

Peter W Clarke	(Chairman)
Graeme W Galt	(Independent Non-Executive Director)
Bruce Coleman	(Independent Non-Executive Director)

Malcolm Halstead was a member of the Audit Committee until he was replaced by Bruce Coleman on 10 June 2004.

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 rotates audit partners engaged on listed companies' audits at least every five 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 2004

	Notes	2004 $'000	2003 $'000
Revenue from Ordinary Activities			
Dividends		2,591	2,858
Interest		170	399
Net realised gains/(losses) on sale of equities/derivatives		(7,835)	425
Net realised gains/(losses) on currency hedging transactions		15,575	9,711
Net unrealised gains/(losses) on revaluation of monetary items		(9,738)	8,222
Reversal of prior period's provision for permanent diminution in the value of investments		24,461	12,353
Provision for permanent diminution in the value of investments		(3,336)	(24,461)
Net realised gains/(losses) on overseas bank accounts		(34)	(2,783)
Total Revenue from Ordinary Activities		21,854	6,724
Expenses			
Management fee		3,078	2,573
Performance fee		–	1,486
Custody		235	153
Share registry		231	239
Directors' fees		118	87
Auditor's remuneration			
– Auditing and review ($47,200, 2003: $37,500)		47	38
– Taxation services ($36,871, 2003: $17,735)		37	18
– Advisory services ($4,360, 2003: $nil)		4	–
Withholding tax on foreign dividends		215	333
Other expenses		397	418
Total Expenses		4,362	5,345
Profit/(loss) from ordinary activities before related income tax expense		17,492	1,379
Income tax (benefit)/expense	2	(1,655)	3,653
Profit/(loss) from ordinary activities after related income tax expense	8	19,147	(2,274)
Basic Earnings per Share (Cents per Share)	7	16.63	(2.02)
Diluted Earnings per Share (Cents per Share)	7	16.63	(2.02)

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Notes	2004 $'000	2003 $'000
Investments	1(c), 3	180,543	170,902
Current Assets			
Cash at bank	9(a)	228	196
Receivables	4	583	1,209
Income tax receivable		914	6,385
Deferred tax assets		629	57
Total Current Assets		2,354	7,847
Total Assets		182,897	178,749
Current Liabilities			
Payables	5	1,881	2,981
Deferred tax		601	2,864
Total Current Liabilities		2,482	5,845
Net Assets		180,415	172,904
Equity			
Contributed equity	6	126,827	121,314
Retained profits	8	53,588	51,590
Total Equity		180,415	172,904

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

STATEMENT OF CASH FLOWS YEAR ENDED 30 JUNE 2004

	Notes	2004 $'000 Inflows (Outflows)	2003 $'000 Inflows (Outflows)
Cash Flows from Operating Activities			
Dividends received		2,675	2,779
Interest received		166	410
Cost of purchases of investments and currencies		(114,047)	(92,364)
Proceeds from sale of investments and currencies		124,280	123,330
Management and Performance fees paid		(4,370)	(9,027)
Other expenses		(2,032)	(1,263)
Income tax received/(paid)		4,291	(10,112)
Net Cash Inflow/(Outflow) from Operating Activities	9(b)	10,963	13,753
Cash Flows from Financing Activities			
Proceeds from issue of shares		5,513	5,873
Dividends paid		(17,146)	(16,686)
Net Cash Outflow from Financing Activities		(11,633)	(10,813)
Net Increase/(decrease) in cash held		(670)	2,940
Cash held at the beginning of the financial year		29,231	26,743
Effects of exchange rate changes on cash		(24)	(452)
Cash Held at the End of the Financial Year	9(a)	28,537	29,231

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

01. 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.

(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).

01. 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 and diluted earnings per share is determined by dividing the operating profit after income tax by the weighted number of Ordinary shares outstanding during the year.

(i) Cash

Refer to note 9(a).

(j) Receivables

All receivables are recognised as and when they are due.

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

(k) Payables

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

01. Summary of Significant Accounting Policies (continued)

(l) Dividends

Provision is 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.

02. Income Tax

	2004 $'000	2003 $'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	17,492	1,379
Prima facie income tax on operating profit/(loss) at 30%	5,248	414
Tax effect on permanent differences which:		
Reduce Tax Payable		
Allowable credits	(746)	(396)
Unrecognised deferred tax assets now deductible	(7,338)	(3,706)
Deferred tax assets not recognised	1,000	7,338
Under/(over) provision of prior period tax	181	3
Income tax (benefit)/expense	(1,655)	3,653
Income tax (benefit)/expense comprises:		
Current income tax provision	999	1,162
Deferred tax liabilities	(2,263)	2,075
Deferred tax assets	(572)	413
Under provision of prior period tax	181	3
	(1,655)	3,653

Future Income Tax Benefit

Potential future income tax benefits of $1,000,735 (2003: $7,338,436) arising from permanent diminution in the value of investments of $3,335,784 (2003: $24,461,452) 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.

03. Investments

	2004 $'000 Net Fair Value	2004 $'000 Cost/Carrying Value	2003 $'000 Net Fair Value	2003 $'000 Cost/Carrying Value
Listed and non-listed securities	181,526	157,467	134,059	158,484
Less: Securities written down to net fair value	–	(3,336)	–	(24,461)
	181,526	154,131	134,059	134,023
Currency hedges	(1,897)	(1,897)	7,844	7,844
Cash on deposit note 9(a)	28,309	28,309	29,035	29,035
Total Investment Portfolio (note 11)	**207,938**	**180,543**	170,938	170,902

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.

04. Receivables

	2004 $'000	2003 $'000
Current		
Proceeds on sale of investments	308	923
Accrued dividends	82	166
Accrued interest	12	8
Prepayments	85	78
Goods and Services Tax	96	34
	583	1,209

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.

04. Receivables (continued)

Denomination of current receivables by geographic location:

	2004 $'000	2003 $'000
Hong Kong dollar	–	1
Japanese yen	25	6
Indian rupee	69	35
Korean won	3	–
Euro	2	114
Danish krone	–	150
Swiss francs	25	–
British pound	3	–
Canadian dollar	–	1
US dollar	11	784
	138	1,091

05. Payables

Current		
Payables on purchase of investments	999	833
Trade creditors (unsecured)	692	1,961
Unclaimed dividends payable to Shareholders	190	187
	1,881	2,981

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.

05. Payables (continued)

Denomination of current payables by geographic location:

	2004 $'000	2003 $'000
US dollar	–	352
Danish krone	129	–
Indian rupee	–	481
Euro	870	–
	999	833

06. Contributed Equity

		2004 Quantity	2004 $'000	2003 Quantity	2003 $'000
Opening balance		113,799,874	121,314	110,808,132	115,441
Dividend reinvestment plan	8-Nov-02	–	–	1,930,837	3,900
Dividend reinvestment plan	28-Feb-03	–	–	1,060,905	1,973
Dividend reinvestment plan	10-Nov-03	1,601,844	3,620	–	–
Dividend reinvestment plan	27-Feb-04	860,519	1,893	–	–
Closing Balance		116,262,237	126,827	113,799,874	121,314

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

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

	Notes	2004	2003
07. Earnings per Share			
Basic earnings per share – cents per share		16.63	(2.02)
Diluted earnings per share – cents per share		16.63	(2.02)
Weighted average number of Ordinary shares on issue used in the calculation of basic and diluted earnings per share		115,117,897	112,403,494
		$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share		19,147	(2,274)

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.

		2004 $'000	2003 $'000
08. Retained Profits			
Retained earnings at the beginning of the financial year		51,590	59,500
Adjustment resulting from change in accounting policy for providing for dividends		–	11,081
Net profit/(loss)		19,147	(2,274)
Dividends provided for or paid	14	(17,149)	(16,717)
Retained Earnings at the End of the Financial Year		53,588	51,590

	2004 $'000	2003 $'000

09. 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*	**228**	196
Cash on deposit** note 3	**28,309**	29,035
	28,537	29,231

* Includes $190,000 (2003: $187,000) held in respect of unclaimed dividends on behalf of Shareholders.

** Includes $14,527,000 (2003: $12,820,000) on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security and are not available for use by the Company until the derivative contracts are closed out. If losses are realised on the close out of derivative contracts, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

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

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bears floating interest rates in the range of 0.20% to 0.70% (2003: 0.25% to 4.00%).
International and Australian deposits at call bear floating interest rates in the range of 1.00% to 5.15% (2003: 1.00% to 4.65%).
International deposits and margin calls at derivative exchanges bear floating interest rates in the range of 0.50% to 1.00% (2003: 1.00% to 2.50%).

	2004 $'000	2003 $'000
09. Notes to the Statement of Cash Flows (continued)		
(b) Reconciliation of Net Cash from Operating Activities to Operating Profit/(Loss) after Income Tax		
Operating profit/(loss) after income tax	19,147	(2,274)
Decrease/(increase) in investment securities and currency hedges	(10,367)	25,985
(Increase)/decrease in cash due to exchange rate movements	24	452
Decrease/(increase) in settlements receivable	615	1,188
Decrease/(increase) in dividends receivable	84	(79)
Decrease/(increase) in interest receivable	(4)	11
Decrease/(increase) in GST receivable	(62)	(22)
Decrease/(increase) in income tax receivable	5,471	(6,385)
Decrease/(increase) in prepayments	(7)	(28)
(Decrease)/increase in accrued expenses	(1,269)	(4,918)
(Decrease)/increase in settlements payable	166	(104)
(Decrease)/increase in income tax payable	–	(2,561)
(Increase)/decrease in deferred tax assets	(572)	413
Increase/(decrease) in deferred tax liabilities	(2,263)	2,075
Net Cash from Operating Activities	**10,963**	13,753

10. Statement of Net Asset Value

Taking Investments at Market Value* and Providing for Realised and Unrealised Taxes		
Net Asset Value per Statement of Financial Position (Historical cost basis)	180,415	172,904
Add:		
Revaluation of investments	27,395	36
Future income tax on revaluation of investments	–	1,106
Deferred income tax on movements in unrealised monetary items	(7,217)	2,864
Adjustment to payables	(30)	–
Net Asset Value	**200,563**	176,910
Net Asset Value – Cents per Share	**172.51**	155.46

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

11. Investment Portfolio

	Quantity	2004 Net Fair Value $'000
JAPAN		
Aiful	17,000	2,540
Aisin Seiki	40,000	1,194
Ajinomoto	164,000	2,826
Alpine Electronics	95,000	1,834
Canon	19,000	1,433
Citizen Watch	67,800	1,099
Credit Saison	93,500	4,022
Daiwa House	80,000	1,328
Denso	126,000	4,198
Fuji Photo Film	29,000	1,301
Millea Holdings	106	2,252
Mitsubishi	216,000	3,003
Mitsubishi Tokyo Financial	239	3,166
Mitsui Sumitomo Insurance	244,000	3,280
NEC	258,000	2,599
Nikkei 225 – Sold Short	(20)	(128)
Nikko Cordial	98,000	680
Nintendo	10,300	1,709
Nippon Sheet Glass	326,000	1,847
Nippon Television	5,400	1,268
NTT	221	1,690
NTT Mobile Communications Network	720	1,841
Sky Perfect Communications	1,007	1,664
Sumitomo	183,000	1,901
Sumitomo Mitsui FG	110	1,079
Takeda Chemical	45,300	2,846
TDK	13,000	1,412
Tokyo Broadcasting System	49,000	1,234
Toyota Industries	34,000	1,168
Toyota Motor	49,000	2,841
Ushio Denki	74,000	1,910
		61,037

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
OTHER ASIA		
Hong Kong		
Beijing Capital International Airport – H	1,120,000	492
Next Media	923,000	439
Travelsky Technology – H	271,000	253
		1,184
Indonesia		
Unilever Indonesia	1,500,000	894
		894
India		
Associated Cement	78,477	590
Associated Cement P – Note	21,000	157
Bank of Baroda	124,000	578
Canara Bank P – Note	104,500	389
CESC	173,665	470
Housing Development Finance	47,308	759
ITC	19,573	539
ITC P – Note	6,000	165
Mahanagar Telephone Nigam	44,000	179
Reliance Industrie P – Note	15,000	200
Reliance Industries	103,602	1,382
State Bank Of India	59,000	789
State Bank Of India P – Note	1,000	13
Tata Power Company	75,366	543
Union Bank Of India	402,000	721
Vijaya Bank	237,000	300
		7,774

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
Korea		
Kangwon Land	144,300	2,281
KT	14,620	698
Lotte Confectionery	3,370	2,422
Samsung	157,160	2,737
Samsung Electronics	2,405	1,417
Samsung Securities	33,000	772
Seoul Broadcasting	34,330	1,247
SK Telecom	2,040	479
		12,053
China		
ZTE Corp P – Note	232,700	979
		979
Malaysia		
UMW Holdings Berhad	428,333	820
		820
Taiwan		
Polaris Securities	1,104,000	826
Yuanta Core Pacific Securities	292,000	259
Yuanta Securities P – Note	628,000	557
		1,642
Total Other Asia		25,346
AUSTRALIA		
HHG	26,300	31
News Corporation – Ordinary	242,781	3,071
		3,102

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
EUROPE EURO		
France		
Alcatel	94,000	2,075
CA Normandie Seine	4,581	578
CA Touraine Poitou	1,170	157
Credit Agricole	107,200	3,733
Veolia Environnement	94,000	3,796
		10,339
Germany		
Adidas	9,900	1,692
Deutsche Post AG – Registered	96,000	2,965
Douglas Holdings	21,848	902
Henkel KGAA – Vorzug	33,800	4,132
Hornbach Baumarkt	45,600	2,064
Hornbach Holdings	16,860	1,701
Infineon Technologies	147,000	2,826
Linde	44,800	3,529
Merck KgAa	43,989	3,792
Schering	9,000	761
Siemens	42,250	4,349
		28,713
Netherlands		
Royal Dutch Petroleum	43,400	3,188
		3,188
Finland		
Metso OYJ	65,000	1,177
		1,177
Italy		
Alleanza Assicurazioni	247,700	4,046
		4,046
Total Europe – Euro		47,463

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
EUROPE – OTHER		
Sweden		
Ericsson LM – B	530,000	2,235
Nordea Bank AB	161,000	1,659
		3,894
Switzerland		
Kuehne & Nagel	1,659	342
Lindt & Spruengli – Registered	50	844
Novartis – Registered	12,700	802
Schindler – Participating Certificates	6,700	2,752
Schweizerische Industrie Gesellschaft Holdings – Registered	2,013	521
SGS Societe Generale Surveillance Holding	1,285	1,004
		6,265
United Kingdom		
Astrazeneca – Sold Short	(9,600)	30
GlaxoSmithKline	15,000	435
Royal Bank of Scotland – Sold Short	(10,000)	21
		486
Russia		
Yukos – ADR	12,500	567
		567
Denmark		
Carlsberg – A	4,077	308
H Lundbeck – A	36,000	1,122
Novozymes A/S – B	71,900	4,640
		6,070
Total Europe – Other		17,282

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
NORTH AMERICA		
Canada		
Fairfax Financial Holdings – Sold Short	(4,600)	(136)
Manulife Financial – Sold Short	(49,050)	(56)
Noranda	108,800	2,672
Suncor Energy	27,000	983
		3,463
United States		
Advanced Micro Devices	148,380	3,366
Affymetrix	34,000	1,587
Agere Systems – A	287,364	943
Agere Systems – B	323,536	992
Agilent Technologies	16,100	672
AmeriCredit – Sold Short	(77,100)	(189)
Annheuser Busch – Sold Short	(12,000)	(37)
Ariad Pharmaceuticals	13,000	139
Barrick Gold	71,800	2,023
Capital One Financial – Sold Short	(27,000)	117
Caterpillar – Sold Short	(4,000)	(25)
Cepheid	10,400	171
Commerce Bancorp – Sold Short	(20,900)	63
Danaher – Sold Short	(30,200)	(313)
Fannie Mae – Sold Short	(30,100)	(113)
Financial Select Sector SPDR Fund – Sold Short	(339,600)	(448)
Foundry Networks	21,600	434
General Motors – Sold Short	(15,700)	(60)
Gillette – Sold Short	(11,800)	(23)
Incyte	50,325	548
Investors Financial Services – Sold Short	(22,300)	(29)

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
iShares Russell 2000 – Sold Short	(20,000)	(223)
Kelloggs – Sold Short	(28,900)	35
Lehman Brothers Holdings – Sold Short	(9,000)	(9)
Lennar – Sold Short	(6,100)	(10)
Liberty Media	113,600	1,457
Liberty Media International – A	5,680	301
Maxtor	154,500	1,461
MGIC Investment – Sold Short	(34,900)	(48)
Myriad Genetics	35,600	758
Nasdaq 100 – Sold Short	(39)	(234)
New York Community Bancorp – Sold Short	(30,917)	235
Newmont Mining	29,950	1,656
NVR – Sold Short	(4,010)	(291)
Parametric	220,100	1,570
Russell 2000 – Sold Short	(20)	(339)
Sears, Roebuck – Sold Short	(10,200)	3
Stryker – Sold Short	(19,400)	(147)
Sun Microsystems	261,200	1,613
Tularik	71,274	2,522
Tyco International – Sold Short	(49,000)	(345)
VEECO Instruments	8,650	318
Vertex Pharmaceuticals	41,100	635
XOMA	64,100	410
Zymogenetics	27,800	753
		21,899
Total North America		25,362

11. Investment Portfolio (continued)

	Quantity	2004 Net Fair Value $'000
SOUTH AMERICA		
Peru		
Bayer Peru – Trabajo	77,287	67
Peru Holding De Turismo – Trabajo	1,667,523	75
		142
SOUTH AFRICA		
Gold Fields – ADR	93,800	1,407
Harmony Gold Mining – ADR	25,500	385
		1,792
LIQUIDS		
Outstanding Settlements		(609)
Foreign Exchange Contracts		(1,897)
Cash at bank and on deposit		28,309
		25,803
Total Investment Portfolio (Note 12(a) and 12(b))		207,329
Accounted for in Payables (payables on purchase of investments)		999
Accounted for in Receivables (proceeds on sale of investments)		(308)
Accounted for in Receivables (dividends receivable)		(82)
Accounted for in Investments (Note 3)		207,938

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 $51,625,792 (2003: $115,837,438) have a net fair value of $44,384,463 (2003: $85,566,384).

11. Investment Portfolio (continued)

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).

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

Number of transactions – 1,751 Total brokerage paid – $556,514

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).

12. Risk Management (continued)

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

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

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

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

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

12. Risk Management (continued)

(a) Investments at Net Fair Value and Derivatives Exposure

	Physical $'000	Futures and Options $'000	Upside[(i)] $'000	Futures and Options $'000	Downside[(ii)] $'000
Japan	61,165	(2,998)	58,167	(2,998)	58,167
Other Asia	25,346	–	25,346	–	25,346
Australia	3,102	–	3,102	–	3,102
Europe – Euro	47,463	–	47,463	–	47,463
Europe – Other	17,231	(1,082)	16,149	(1,082)	16,149
North America	27,985	(66,756)	(38,771)	(66,756)	(38,771)
South America	142	–	142	–	142
Africa	1,792	–	1,792	–	1,792
	184,226	(70,836)	113,390	(70,836)	113,390
Cash and accruals	23,103	70,836	93,939	70,836	93,939
Total	207,329	–	207,329	–	207,329

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	64,706	10,479	(15,678)	59,507
Other Asia	28,791	–	–	28,791
Australia	2,795	58,385	(4,374)	56,806
Europe – Euro	50,152	–	(12,431)	37,721
Europe – Other	16,800	–	(2,062)	14,738
North America	42,151	4,639	(38,958)	7,832
South America	142	–	–	142
Africa	1,792	–	–	1,792
Total	207,329	73,503	(73,503)	207,329

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.

	2004 $'000	2003 $'000
13. Franking Account		
Opening balance based on tax paid and franking credits attached to dividends paid – converted at 30%	**36,249**	37,479
On tax paid and payable:		
2002/2003	**–**	1,163
2003/2004	**998**	–
Prior year tax provision – franking adjustment	**181**	3
Credits on franked dividends received	**–**	20
Dividend paid – franked at 30%	**(7,350)**	(2,416)
	30,078	36,249

	2004 CPS	2004 $'000	2003 CPS	2003 $'000
14. Dividends (fully franked)				
Paid – Interim fully franked at 30%	**5.00**	**5,769**	5.00	5,636
Paid – Final fully franked at 30%	**10.00**	**11,380**	10.00	11,081
	15.00	**17,149**	15.00	16,717

	2004 $'000	2003 $'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 12 November 2004 but not recognised as a liability at year end.	**11,626**	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 2004 was positive 21.43% against the MSCI's positive 19.38%. This represents an outperformance of 2.05% against the MSCI. This does not represent an outperformance after the 5% MSCI hurdle. Accordingly, a Performance fee is not 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.

	2004 $'000	2003 $'000
Management Fee	**3,078**	2,573
Performance Fee	**–**	1,486
Amounts paid and payable to the Investment Manager for the year	**3,078**	4,059

15. Investment Manager (continued)

A summary of the salient provisions of the Investment Management Contract are as follows:

(a) the Investment Manager will invest the Portfolio in accordance with the investment objectives and restrictions of the Company and subject to the Constitution, the Management Agreement, the ASX Listing Rules, the Corporations Act 2001 and investment restrictions and directions from the Company;
(b) confer with the Company at regular intervals;
(c) administer the borrowings of the Company;
(d) the Investment Manager may appoint the Managing Director of the Company;
(e) the Investment Manager is required to publish the Net Asset Value of the Company monthly at the ASX and in an Australian national daily newspaper;
(f) the Agreement will continue for a term of five years, the Investment Manager may retire after giving six months' notice;
(g) the Agreement may be terminated or renewed by the Members of the Company in General Meeting at the end of each five year term; and
(h) the Agreement may be immediately terminated by the Company in the event of:
    (i) a breach of a material obligation by the Investment Manager;
    (ii) the Investment Manager going into liquidation or having an administrator or receiver appointed.

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

	2004 $'000 Segment Revenue	2004 $'000 Segment Result	2003 $'000 Segment Revenue	2003 $'000 Segment Result
Japan	5,789	5,743	(8,802)	(8,839)
Other Asia	3,630	3,580	(2,440)	(2,487)
Australia	(173)	(174)	1,601	1,601
Europe – Euro	9,385	9,243	(5,121)	(5,307)
Europe – Other	3,147	3,191	(121)	(150)
North America	(5,296)	(5,317)	3,189	3,154
South America	(465)	(465)	485	485
Unallocated Revenue – Net gains/(losses) on currency hedging transactions (realised and unrealised)	5,837	5,837	17,933	17,933
Unallocated Expenses	–	(4,146)	–	(5,011)
Total	**21,854**	**17,492**	6,724	1,379

	2004 $'000 Segment Assets	2004 $'000 Segment Liabilities	2003 $'000 Segment Assets	2003 $'000 Segment Liabilities
Japan	49,248	–	5,294	–
Other Asia	24,643	–	18,949	480
Australia	58,668	1,483	109,681	5,013
Europe – Euro	25,239	870	30,160	–
Europe – Other	16,129	129	14,158	–
North America	7,179	–	(2,024)	352
South America	142	–	222	–
Africa	1,649	–	2,309	–
Total	**182,897**	**2,482**	178,749	5,845

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 2004 and the results for the year ended on that date.

19. Director and Executive Disclosures

(a) Directors

The names of persons who were Directors of Platinum Capital Limited at any time during the financial year are as follows:

Graeme Galt	(Chairman and Non-Executive Director)
Peter Clarke	(Non-Executive Director)
Bruce Coleman	(Non-Executive Director)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Director)
Malcolm Halstead	(Director and Secretary)

Bruce Coleman was appointed a Non-Executive Director on 10 June 2004. All others were Directors for the year ended 30 June 2004.

The Executive Directors (WKS Neilson, AM Clifford and RM Halstead) are employees of the Investment Manager, Platinum Asset Management. There are no Executives or employees, other than the Non-Executive Directors listed in note 19(b).

(b) Directors' Remuneration

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.

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.

19. Director and Executive Disclosures (continued)

2004 Name	Primary Salary $	Post-employment Superannuation $	Total $
GW Galt	55,000	4,950	59,950
PW Clarke	50,000	4,500	54,500
DB Coleman	2,821	254	3,075
Total	107,821	9,704	117,525

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. Accounting Standard AASB 1046 requires remuneration made available indirectly to Directors by personally-related entities be disclosed. Platinum Asset Management is a personally-related entity of the three Executive Directors. The Standard *deems* some portion of the remuneration paid by Platinum Asset Management to its employees to be in relation to managing the affairs of this Company. Platinum Asset Management has not made any determination as to what proportion of its employees' remuneration relates to this Company. Platinum Asset Management paid: WKS Neilson a salary of $200,000 (2003: $190,000) and superannuation of $11,002 (2003: $10,519); AM Clifford a salary of $170,000 (2003: $170,000), a bonus of $200,000 (2003: $100,000) and superannuation of $11,002 (2003: $10,519); RM Halstead a salary of $170,000 (2003: $170,000), a bonus of $200,000 (2003: $100,000) and superannuation of $11,002 (2003: $10,519).

(c) Service Agreements

Remuneration and other terms of employment for the Non-Executive Directors are formalised in service agreements. The Executive Directors do not have service agreements, as they are employees of the Investment Manager, Platinum Asset Management.

Graeme W Galt, Chairman and Non-Executive Director

- Commenced on 25 July 2002.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the year ended 30 June 2004 of $59,950.

19. Director and Executive Disclosures (continued)

Peter W Clarke, Non-Executive Director

- Commenced on 15 April 1999.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the year ended 30 June 2004 of $54,500.

Bruce Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base Salary, inclusive of superannuation, for the period ended 30 June 2004 of $3,075.

(d) Equity Instrument Disclosures Relating to Directors

Share Holdings

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 as set out in note 15.

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

Name	Balance at 01/7/03	Acquisitions	Disposals	Balance at 30/6/04
WK Neilson	893,626	20,625	(590,231)	324,020
AM Clifford	666,079	5,156	(590,231)	81,004
RM Halstead	650,910	4,125	(590,231)	64,804

20. Related Party Information

Directors

Disclosures relating to Directors are set out in note 19.

Related Parties

Disclosures relating to the Management fees paid and payable to Platinum Asset Management Trust, a personally related entity are set out in note 15.

21. 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.

22. International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian Equivalents to IFRS, and the Urgent Issues Group Statements will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the Company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

To comply with Australian Equivalents to IFRS for the first time the Company will be required to restate its comparative financial statements to reflect the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Investment Manager, Platinum Asset Management, has established a project team to manage the transition to Australian equivalents of IFRS, including training staff and implementation of any system and process changes necessary. The project team considers it is on schedule to finalise adoption of IFRS within the required timeframe. To date the project team has analysed most of the Australian equivalents to IFRS and has identified the main accounting policy changes that will be required.

22. International Financial Reporting Standards (IFRS) (continued)

The key potential implications of the conversion to IFRS on the Company's accounting policies include the following:

– Financial assets will be classified as "trading securities" and be recognised in the Statement of Financial Position at fair value. During the period changes in fair value for trading securities will be recognised in the Statement of Financial Performance. The fair value of financial assets will be measured at bid price and will exclude disposal costs.

– Financial assets and other derivatives are currently valued at historical cost unless it has been determined that there has been a permanent diminution in the value of an investment, the carrying amount is written down to net market value or "last sale" price and there is an allowance for disposal costs. Investments in monetary items and currency hedges, which are stated at net market value or "last sale" price and there is an allowance for disposal costs.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents of IFRS on the Company's financial position and reported results.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 31 to 63:

(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 2004 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 2004

Audit Opinion

In our opinion, the financial report of Platinum Capital Limited:

– gives 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 2004 and of its performance for the year ended on that date, and
– is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope and Summary of Our Role

The Financial Report and Directors' Responsibility

The financial report comprises the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, accompanying notes to the financial statements, and the Directors' declaration for Platinum Capital Limited (the Company), for the year ended 30 June 2004.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Scope and Summary of Our Role (continued)

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

We formed our audit opinion on the basis of these procedures, which included:

– examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
– assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

A.J Loveridge

PricewaterhouseCoopers

AJ Loveridge
Partner

Sydney
6 August 2004