1996

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 1996

PLATINUM CAPITAL LIMITED

ACN 063 975 431

DIRECTORS

Michael Darling
Philip Pearce
Kerr Neilson
Andrew Clifford
Malcolm Halstead

SECRETARY

Malcolm Halstead

REGISTERED OFFICE

Level 21, Gold Fields House
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Phone (61 2) 9255 7500

SHARE REGISTRARS

Ernst & Young Registry Services Pty Limited
Level 2, 321 Kent Street
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AUDITORS AND TAXATION ADVISORS

Price Waterhouse
201 Kent Street
Sydney NSW 2000

SOLICITORS

Allen Allen & Hemsley
2 Chifley Square
Sydney NSW 2000

STOCK EXCHANGE LISTING

Official list of the Australian Stock Exchange Limited
Ordinary Shares ASX Code: PMC

INVESTMENT MANAGER

Platinum Asset Management

Kerr Neilson ~ *Global*
Andrew Clifford ~ *S.E. Asia, Japan, India*
Jim Simpson ~ *S.E. Asia, Japan*
Doug Huey ~ *S.E. Asia*
Stephen Arnold ~ *North America*
James Carnegie ~ *South America*
Toby Harrop ~ *Europe, Currencies*
Rod Sleath ~ *Europe*
Hugh Giddy ~ *Global*
Liz Norman ~ *Shareholder Liaison*

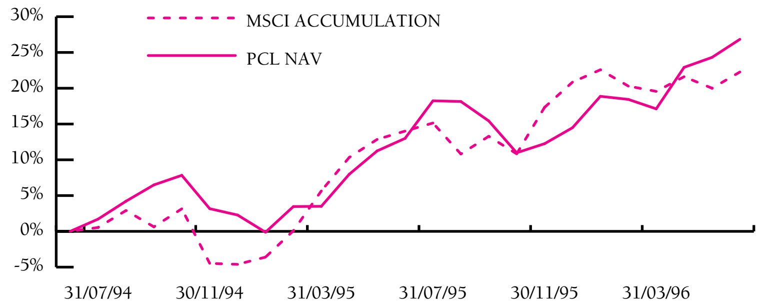
INVESTMENT PERFORMANCE

Platinum Capital Limited, as an investment company, is to be judged by its investment performance. By this I mean the change in the Net Asset Value (NAV) per share over time. In the year ended 30 June 1996, the NAV rose to $1.1155 per share, from $1.0385 at the beginning of the year, an increase of 7.42%. The NAV figure is calculated after providing for all tax liabilities; both realised and unrealised.

Before allowing for tax, the increase was 12.21%. By way of comparison, the Morgan Stanley Capital Index (MSCI) which is often used as a benchmark for performance of international investment funds, was up 7.25% for the same period. (The MSCI is a pre-tax measure).

Looking at the two year performance of the company since its inception, the Platinum NAV is up 26.84% on a pre-tax basis, the MSCI Accumulation index is up 22.27%. The relative performance of these two measures over time is shown in Chart 1 below.

PCL PRE-TAX NAV VERSUS MSCI

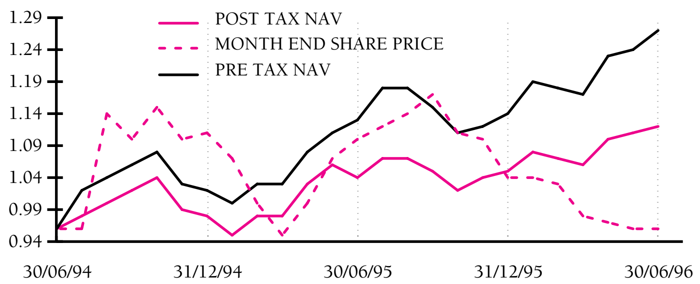


In judging this performance, we rate it as not bad, but below our aspirations. International markets were again volatile, with trends that were often contradictory - the kind of situation that sorts out the better managers from the others. This environment resulted in the relatively low absolute gain in the MSCI (7.25%) and Platinum has done well to substantially out-perform that result. On the other hand, Platinum suffered during the year from a short position in the US market intended to give some protection to the portfolio. This position cost the portfolio about six percentage points in pre-tax performance.

SHARE PRICE

The share price movement over the year has been most disappointing. It was $1.14 in August last year and is now $0.92. In the last analysis we cannot do a lot to influence the share price. Theoretically it should be close to NAV per share and move with it but, in practice, it does not. The movement in these two measures over the last two years is recorded in Chart 2 below, which shows fairly wide swings in the share price from a premium over NAV at some moments in the past to a fairly substantial discount at the present.

PCL NAV COMPARED TO THE SHARE PRICE ($ PER SHARE)



OPTIONS

On 1 July 1996 the right to exercise options on shares at $1.20 per share fell due. As the share price at that time was well below the price at which the options could be exercised, the company advised option holders not to exercise, and none were.

DIVIDENDS

Last year Directors told shareholders that their dividend policy would be to start with a relatively modest dividend payment that could be built up over time. In addition, dividend policy would take account of franking credits and distribute them over time.

This year, the company recorded an operating profit after tax of $13.04 million. While this figure is not really relevant to the company's performance (profits or losses are a function of what investments were sold in the year and are, in that sense, arbitrary), it is relevant to the company's capacity to pay dividends.

Directors are recommending two dividend payments. The first is an ordinary dividend of 2 cents per share, fully-franked. The second is a special dividend of 4 cents per share, also fully-franked, to pass on some of the accumulated franking credits. The balance of the franking account after these dividends stands at about 13 cents per share.

SHARE BUY BACK POWERS

The Platinum share price is currently selling at a fairly substantial discount to NAV. Directors have determined that there may be times when it is in the interest of all shareholders for the company to be able to buy back its own shares at the prevailing market price. Typically, this would occur when the market price represented a substantial discount to NAV.

Currently, the Articles of Association and the Corporations Law permit the purchase of 10% of the company's issued shares in any one year. We are seeking your approval to be able to buy back up to 20% of issued shares in any one year.

We hope that the exercise of this power from time to time will have two positive results. Firstly, it may minimise the times when the share price trades at a meaningful discount to NAV and, secondly, purchases at a substantial discount will raise the NAV itself.

OUTLOOK FOR 1996/97

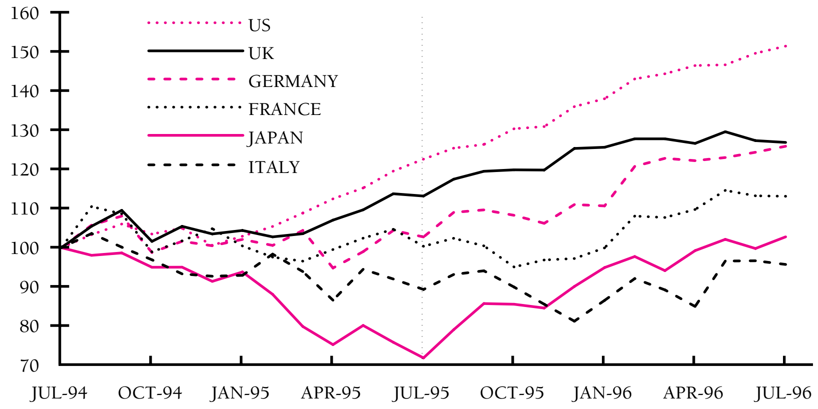
The year ahead will not be an easy one in which to achieve strong investment returns. In many markets around the world, most importantly in the United States, good value is hard to find. Apart from lack of opportunities, this creates an element of vulnerability in these and other markets. Our investment approach will reflect this view.

MICHAEL DARLING ~ CHAIRMAN

By mid-1995, the chronic weakness of the US dollar, particularly against the yen and Deutsche mark block, had exerted enormous strain on the global economic system. The removal of the threat of an economic meltdown in Japan, the second largest economy in the world, and the danger of significant economic dislocation in Europe, was therefore received with great relief by the financial markets as the dollar began to turn. An important accompaniment to this change was massive intervention by the Bank of Japan in the foreign exchange market which greatly increased liquidity both in Japan and abroad as global foreign exchange reserves rose. This acted as a fuel for world sharemarkets.

Markets surged in the 12 month period to June 1996, with Japan having the strongest market, although with the yen having devalued by 30%, the gain in US dollars was less impressive. The US market, which tended to ignore the currency turmoil in the first half of 1995 surged higher, initially aided by falling bond rates and good earnings growth. It has lately been influenced by massive investment in mutual funds (unit trusts) by individuals. From January through to June 1996, this investment exceeded the total flow of calendar 1995. Though the updraft was not fully synchronised, there were very few markets that did not respond to this environment of plentiful liquidity and the prospect of a resumption in economic growth in Japan and Europe. The accompanying graph illustrates the price action in the larger markets.

MAJOR MARKETS



The prospect of a resurgence in world growth has been beneficial to the Australian dollar as the market focused on the traditional relationship between the currency and commodity prices. From a low of 71 cents to the US dollar at the beginning of July 1995, the currency ended the year at 79 cents, a gain of over 10%. Against formerly "hard" currencies such as the yen and Deutsche mark block, the Australian dollar was even stronger. The effect of our strong currency is to reduce the underlying gains from international investment. In Australian dollar terms, the Morgan Stanley Capital International (MSCI) World Index rose a mere 7.2%. Fortunately the fund's portfolio was well positioned in anticipation of a rise in the US and Australian dollar and the adverse impact was minimal, hence the portfolio outperformed the index by 5%, at 12.2% before tax.

This result was achieved despite the decision to hedge our US shareholdings by selling S&P 500 futures contracts. In retrospect, this was a poor decision and reduced the portfolio return by nearly 6%. This cautious view was predicated on the belief that investment markets were facing potential dislocation from currency turmoil and that the market which had seemingly been unaffected by these events would come under pressure as its currency appreciated. Moreover we believed (and still do) that in a low inflation environment companies will struggle to raise earnings because of pressure on selling prices. As it transpired, companies produced surprisingly good earnings (because of lower interest rates and high productivity) which together with bountiful liquidity resulted in an uninterrupted surge in share prices. Exacerbating our position was the market's emphasis on immediate earnings visibility which is generally not a characteristic found in value stocks. This was the year of big popular so-called blue chips. Many of these companies have seen their price earnings ratios rise to levels not seen since the days of the "nifty fifty" back in the early 1970's. It is our experience that in very strong liquidity-driven markets, less visible stocks tend to lag the general indices. As you are aware, our speciality is to fossick around in less well trodden ground.

DISPOSITION OF ASSETS

REGION	30 JUNE 1996	30 JUNE 1995
Japan	31.0%	10.0%
Western Europe	25.7%	19.1%
North America	14.5%	30.7%
Other Asia	9.5%	10.7%
South America	5.2%	9.5%
Australia	3.4%	4.4%
Eastern Europe and Russia	– *	2.8%
Africa	0.5%	1.0%
Total Invested	89.8%	88.2%

* The profits attached to the Russian investment were realised in June 1996. This realisation assists in obviating the need for expensive tax administration with regard to foreign investment funds (FIF's). We have since reinvested in Russia.

PORTFOLIO CHANGES

You will know from the quarterly reports that we have been building up our investments in both Japan and Europe and reducing our investments in the USA. We categorise our holdings in Japan in two classes; those benefiting from a weaker yen and those that will gain from a recovery/restructuring of the domestic economy. The former includes names of well known companies such as Canon, Fuji Photo Film, Citizen Watch and Matsushita (maker of National Panasonic, JVC and Technics). The other group includes the local Coca-Cola bottlers, Sekisui House (the premier house builder) and some leading pharmaceutical companies.

The Korean holdings have been reoriented towards banks and stockbrokers, with the sale of Hyundai Marine & Fire and LG Insurance. The share price of these insurance companies had doubled on the back of strong premium growth and an improved regulatory environment.

In Europe, we added Olivetti and ENI in Italy, Lyonnaise des Eaux, Lagardère and Banque Nationale de Paris (BNP) in France and Deutsche Bank and Daimler Benz in Germany. The later two investments are described more fully on page 14.

The reduced exposure to North America came from a significant unwinding of the position in the Airlines, the sale of Dow Jones, Apple, Masco and Quno, and the trimming of IBM. The significant addition has been Novell.

In South America we took our profits on Brahma, Petrobras and Telebras, while adding to Souza Cruz and the bank/insurance companies.

The composition of the Australian portfolio has changed with the sale of Burswood Property Trust and Hills Motorway. Mobile Communications had a successful listing in June at $2.50 per share versus the initial subscription price of $1.00.

TOP TEN HOLDINGS (AS AT 30 JUNE 1996)

STOCK	COUNTRY	INDUSTRY	% HOLDING
Fuji Photo Film	Japan	Photographic Products	5.5%
IBM	USA	Information Technology	4.0%
Canon	Japan	Office Equipment	3.2%
Matsushita Electric	Japan	Consumer Electronics	3.2%
Sekisui House	Japan	Housing	3.2%
Tabacalera	Spain	Tobacco	3.2%
Olivetti	Italy	Computers/Telecoms	3.2%
Yamanouchi Pharm.	Japan	Pharmaceutical	3.0%
Mobile Comm.	Australia	Telecoms	2.5%
Novell	USA	Networking Technology	2.4%
TOTAL			33.4%

CURRENT INVESTMENT THEMES

The case for the Japanese companies was described in some detail in earlier correspondence so you will not be burdened with further detail here.

As for Europe, there are many obvious obstacles in the way of restructuring but we believe sight should not be lost of the inherent strengths of the companies. These range from their already established global presence, their large market shares, widespread brand recognition and so on. There is also clear evidence of change. Government spending is being re-evaluated, with many long cherished and often abused schemes being curtailed. At the company level, apart from re-engineering processes, firms are adopting concepts such as performance related pay and stock options for the first time.

There is no ready formula to identify the winners in this process of change. Most Continental companies started to reappraise their structures as they entered the nineties - goaded by persistent strengths of their currencies and the removal of barriers to free trade. The companies we favour tend to be among the larger multi-nationals on account of their entrenched positions, depth of management and resilient balance sheets. These qualities can of course impede change and we run the risk of underestimating the difficulties involved and misreading the magnitude and duration of the adjustment period.

The risk with some of the smaller companies is that they have relatively narrow business bases and many are seeing some of their historic advantages starting to fade. For example, several of the specialist engineers that we have visited in Germany and Switzerland are finding new competitors emerging in Asia who are undercutting their prices by 30% or more. Some of this may be transient as it relates to recent currency strength, but in a way these companies carry all the burdens of breaking technical barriers only to find their new competitors hitching a ride on their endeavours. Although many of these companies have share prices at 10 year lows, we are inclined to avoid them for the moment. We would rather concentrate on companies with some pricing power derived from brands with international spread.

Another 20% of our assets are evenly dispersed among Korea, Indonesia, Brazil and Russia. Starting with Russia, shareholders will be aware that we regard this as one of the few remaining emerging markets with all the attendant volatility. We have seen this investment rise 50% within three months of purchase and then fall back two-thirds. At present it is well above our initial entry price and with Yeltsin's re-election to the Presidency, Russian economic resuscitation looks promising. However, we would be surprised if there were no further power struggles in the Kremlin with temporary adverse consequences for our investment. The gradual progress being made on tax and company law reform is encouraging.

Like Russia, Brazil's reforms face the perverse headaches of a resource rich, large country. Fortunately the process is past stalling point, though reforms to the social security system and administration have lost momentum. As the economy gradually expands, we can see enormous potential in credit growth in the private sector which is virtually debt free.

Our Indonesian stocks have put in a motley performance. Astra, the country's largest car and truck assembler, was harmed by the government's edict to launch an "Indonesian car", initially to be built in Korea! This enterprise is part owned by the family of the President. However, there has been much consternation expressed by the US and Japanese trade officials and the proposal has now been diluted. Jaya Real Property and Smart continue to benefit from the fast growth in consumer spending.

The Korean market is suffering from the deterioration in the competitiveness of its exports in the face of a weakening yen. As was noted last quarter, we believe that the financial sector will be the principal beneficiary of the transformation of this economy. The banks have been through a torrid time of bad loans following the Government-directed lending of the previous boom but these loans are now provided for and interest spreads are widening as these companies are free to allocate greater resources to the consumer market. Our research suggests that the banks are on the cusp of a major boom in consumer lending, similar to that witnessed by Japan in the early eighties. This should result in extraordinary earnings growth over the next five years.

The recent rise in volatility of Wall Street, the change in leadership away from the technology stocks and some evidence of earnings disappointment - all in the face of high real interest rates, encourages us to maintain our hedge against the US holdings of the portfolio. Should the US market sell off, we would expect other markets to experience some weakness in sympathy. Nevertheless, we derive comfort from the fact that many of the companies we own are priced modestly in relation to their historic valuations and hold the prospect of strong earnings growth over the next three years.

CURRENCIES

The portfolio is hedged out of the yen and hard European currencies. Half of the company's assets are denominated in Australian dollars by currency hedges.

For readers who follow our regular stock stories, below is a list of the stocks we have featured since our first quarterly report and their subsequent price action.

STOCK TABLE

STOCK	INDUSTRY	COUNTRY	ENTRY PRICE	EXIT* OR CURRENT PRICE	% CHANGE
American Airlines	Airlines	US	$US 54.17	89.92*	66%
Apple	Computers	US	$US 28.16	34.45*	22%
Brahma	Brewery	Brazil	BR 0.2236	0.4824*	116%
Delta Airlines	Airlines	US	$US 50.29	83.00	65%
Dow Jones	Information Technology	US	$US 37.99	39.56*	4%
Fuji Photo Film	Photographic Products	Japan	¥ 2070	3460	67%
IBM	Computers	US	$US 57.26	99.00	73%
Jinro	Spirits	Korea	W 25000	17300	(31%)
Olivetti	Computers/Telecoms	Italy	IL 1117	823	(26%)
Pharmacia	Pharmaceuticals	Sweden	SK 117	197*	68%
Schlumberger	Oil Production	US	$US 65.97	79.00*	20%
Smart	Commodities	Indonesia	RP 1791	1650	(8%)
Tabacalera	Tobacco	Spain	SP 3147	6450	105%
Western Atlas	Oil Production	US	$US 46.56	58.25	25%

The German economy has had a tumultuous time since the reunification with the old eastern lands. An unconvincing recovery from recession and spiralling unemployment have combined with the financial burden of the east to cause the rigidities of the institutional structure in Germany to become a subject of intense public debate. While all the forces of supply and demand in the economy dictated wage restraint and higher productivity, the union movement continued to push through very significant wage increases in 1995 while maintaining the practice of a 36 hour work week and long holidays.

Exacerbating the problem facing industry is the harsh new international landscape - not only are the barriers to free trade falling lower every year, but the major competitors in engineered products (Japan, Italy and Sweden) have almost closed the technological gap with Germany and are very competitive on price (helped by the relative weakness of their currencies to the Deutsche mark). Thus the traditional German model of high cost structures offset by significant product superiority is no longer viable. While globalisation is a popular catchword, no management can escape the pressures imposed by the competition to gain access to capital, markets and people. This alone suggests pressures towards convergence in business practices; indeed we already see evidence of this emerging.

We are attracted to those companies which have already started to adjust to this new paradigm.

DAIMLER-BENZ

★ ★ ★

Daimler-Benz was for decades Germany's largest and most profitable industrial company. From the 1926 merger of Daimler-Motoren-Gesellschaft and Benz & Cie until 1985, Daimler-Benz concentrated on the production of passenger cars and commercial vehicles (trucks, vans, and buses) under the Mercedes Benz marque. In 1985 the company chose to diversify into other transport activities and over the following four years went on one of the most extravagant spending sprees ever seen. The purchase of Dornier (light aircraft) and AEG (industrial conglomerate with business in locomotives, power tools, white goods etc) in 1985, was followed by the 1989 acquisitions of Messerschmidt-Bolklow-Blohm GmbH (which gave it a stake in the European Airbus consortium, as well as space and defence businesses) and the Dutch aircraft maker Fokker. It is difficult, in hindsight, to find a single redeeming feature of this diversification strategy. Perhaps the only one is that they are unlikely to ever attempt it again. One market estimate is that including purchase costs, investments in these businesses and operating losses, Daimler-Benz has wasted about DM25bn (over A$20bn) over the ten years running these non-automotive businesses. It is a measure of the strength of the core automotive operation that this company could withstand such devastation.

Perhaps worse, however, was the fact that the profitable car business was allowed to drift until 1991, and the truck business was allowed to hobble along with no new heavy truck model since 1971. It is thus little surprise that Daimler-Benz has had significant management changes, and has had its reputation of solidity and conservatism sorely tested.

In the last few years many things have come to a head - AEG has been split up and mostly sold off (or joint ventured in the case of the train business), and DASA (which holds all the aerospace activities) has been overhauled to significantly reduce costs. In the most dramatic move, Daimler allowed Fokker to slip into bankruptcy in January 1996, and then in June, it sold 80% of Dornier to the American firm Fairchild.

Of equal importance has been the re-focusing of what is by some margin the most profitable passenger car business in the world. Starting in 1991, Mercedes Benz has put in place a plan of many model launches and a radical new approach to manufacturing which has resulted in stunning cost reductions. The most visible signs are the new models - the 1993 C-class *baby-Benz* which has confounded all with its success (300,000 sold last year), and the 1995 launch of the mid range E-class (which, with its distinctive oval headlamps is still sold out in most countries). Later this year they launch the SLK *roadster*; while in the coming couple of years there will be the M-class all activity vehicle (4WD), the A class hatchback, and the *Swatchmobile* (an environmentally friendly small, low-priced city runabout being built in conjunction with the Swiss watch company). These are all signs of a company working very hard, and just as importantly, very profitably. The car company is without peer in most countries, though the more crowded market in the luxury end has prompted a far more responsive marketing effort. Improvement in the US, which has been a flat spot for them over the last ten years, will be a key indicator of the efficacy of this strategy.

Trucks have been and still are a more problematic area for Mercedes Benz. The company is easily the world market leader in trucks, but (almost unbelievably) they have been incurring losses for some time (smaller competitors Volvo and especially Scania are very profitable). Mercedes have a good truck business in the US where they are called Freightliner, but in the rest of the world they have been offering a good product at an uncompetitive price. This year sees the first completely new heavy truck model (ie over 15 tonnes) since the early 1970s; this follows a big new model launch at Freightliner in 1995, and precedes a new medium-heavy truck model due out in Europe next year. The importance of this new model lies in its much lower cost of manufacture. The competitive advantage enjoyed by the Swedes lies in their *modular* production methods. It is suggested for example that a Volvo or Scania truck might have 20-25,000 components versus some 40,000 in existing Mercedes vehicles. It does not take much pondering on the problems of logistics, handling, staff, stockpiles etc to be convinced of the competitive edge afforded by this greater simplicity.

Once the truck manufacturing strategy is fully implemented, the company will focus on leveraging the strength of its large global market share.

Thus in Daimler-Benz we have a company on the point of what could be an enormous increase in profits. Importantly they have been working on the business with this goal in mind for several years already, and have now stemmed the losses (by sale, closure or restructuring) in the problem areas. This means that the very large profits of the Mercedes Benz car business will be able to shine through, and with a successful turnaround of the truck business, the profit increase will surprise even the optimistic market commentators. The risk to our position seem to be mainly that the depth of difficulties in the trucking operation are too deep-seated to be solved in the near future. Against this we take comfort from the fact that they have been working hard on the area for some time, and there is no evidence that this company has ever lacked operational management - witness the success of the new E-class car, and the persistent gains in market share by Freightliner in the US over the last decade. Moreover, the company has lost money only once in its 110 year history.

DEUTSCHE BANK

★ ★ ★

Deutsche Bank is a company which has seen its stock price drift sideways for many years, more through passive inaction than through active destruction of value. Like all banking markets, the German one becomes more *dis-intermediated* every year. Small to mid sized companies which for decades had a very close link with one *house* bank are now far more likely to put their business out to tender, while larger companies can access international capital markets directly rather than relying on the pooling function of the banking system. On the funding side, individual savers are increasingly choosing to invest in money market, bond or stock funds rather than deposit their savings in a bank. The obvious effect of this is that interest rate spreads (ie the difference between what the bank charges borrowers and that which it pays depositors) have continuously narrowed over the last ten-fifteen years. The German banking market is far more competitive than that of say, Australia with its cosy oligopoly. In Germany there are hundreds of banks and even the largest player Deutsche Bank has only a few percent of the market.

The key to the earnings improvement of Deutsche Bank will be the efficacy with which it re-deploys poorly performing capital. The first problem area is the domestic branch network - the returns on equity of the domestic retail branch-based operations of these German universal banks are appalling. A general reduction of staff, closure of excessive branches, and centralisation of back office functions is expected to save DM750mn in costs in Deutsche's domestic retail banking operation. This should provide the basis for a big improvement in the returns of this segment.

Another key area of low yielding assets is the industrial shareholdings which are no longer as profitable in themselves nor as useful in garnering good margin business as they were in previous decades. Thus Deutsche Bank's stakes (10-40% in many German companies, large and small) are for sale and the value of these holdings is over DM20bn. This compares to a market capitalisation of DM36bn and shareholders' equity of DM28bn. The key indication that Deutsche Bank is keen to get on with deploying assets more profitably is their recent statement that they will gradually sell their holdings and pay the huge capital gains taxes that will apply. (There have been wranglings between the banks and the government for favourable tax treatment on these historic holdings, with the government encouraging divestment, but in this environment of belt tightening, kind treatment of banks is unlikely).

The principal thrust of this new strategy emanates from the purchase of the blue-blooded London merchant bank Morgan Grenfell in 1989. More recently Deutsche Bank has concentrated all its investment banking activities in the City of London, which is an unusual move given the Bundesbank's ambitions for Frankfurt. Deutsche Morgan Grenfell has embarked on an aggressive recruitment campaign to enhance its global presence. This has caused some disquiet among commentators due to the remuneration packages being offered. Some continental banks have tried to achieve the same ends by piecemeal additions to their coverage, but this model is not without its faults.

Corporate deals are starting to flow toward Deutsche Morgan Grenfell and their ambition to become the leading European investment bank certainly looks credible at this early stage. Assisting this process over the medium term is the backlog of European privatisations and the prospect of a heavy workload from European corporate reorganisations. In one sense Deutsche Bank is thus a beneficiary of the massive change taking place in Europe.

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1996

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1996

PLATINUM CAPITAL LIMITED

ACN 063 975 431

In respect of the year ended 30 June 1996 the Directors of Platinum Capital Limited (the Company) submit the following report made out in accordance with a resolution of the Directors.

DIRECTORS IN OFFICE AT THE DATE OF THIS REPORT

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

PRINCIPAL ACTIVITY

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

TRADING RESULTS

The net profit of the Company for the year was $13,040,000 (1995: loss $3,293,000) after income tax expense of $9,087,000 (1995: $1,411,000).

DIVIDENDS

In respect of the year ended 30 June 1996 the Directors propose the payment of the following fully franked dividends to Ordinary Shareholders recorded on the Share Register on 23 October 1996, the Ex-Dividend date.

Final	2.00 cps
Special	4.00 cps

REVIEW OF OPERATIONS

Operating Revenue

The operating revenue for the year was $76,762,000 (1995: $60,130,000).

Operating Profit

The operating profit before tax was $22,127,000 (1995: loss $1,882,000) and $13,040,000 (1995: loss $3,293,000) after tax.

Taxation

Income tax expense for the year was $9,087,000 (1995: $1,411,000).

CHANGES IN THE STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

On 1 July 1996 the Options issued at the time of the Company's flotation expired. No Options were exercised.

LIKELY DEVELOPMENTS

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

ROUNDING OFF OF AMOUNTS

The Company is of the kind referred to in the Corporations Law Regulation 3.6.05(6) and, in accordance with section 311 of Corporations Law Regulation 3.6.05, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

ACCOUNTING ISSUES

The Directors have determined to report in accordance with Exposure Draft 65 issued in June 1995 by the Australian Accounting Standards Board and with the Australian Society of Corporate Treasurers' Industry Statement on Derivative Instruments, as endorsed by the Australian Securities Commission, in so far as is relevant to the Company. The Directors believe that this more effective disclosure assists in a proper understanding of the investment process undertaken by the Investment Manager.

DIRECTORS' BENEFITS

No Director of the Company has, since the end of the previous financial year of the Company, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by Directors shown in the financial statements) by reason of a contract made by the Company, or a related entity with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS IN CONTRACTS

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

During the year the Investment Manager purchased 952,400 shares in the Company. The three Executive Directors are employees of and have a relevant interest in the Investment Manager and accordingly have a relevant interest in the shares purchased.

INSURANCE

During the year the Company incurred a premium of $33,927 in respect of a contract for indemnity insurance for the following Directors of the Company:

MG Darling AM Clifford
PA Pearce RM Halstead
WK Neilson

The Company has effected a 'Key Man' insurance policy in its favour upon the life of WK Neilson.

INFORMATION ON DIRECTORS

Michael G Darling BA Law (Oxon), MBA (Harvard)
Chairman (Age 50)

Relevant interest in 3,300,000 shares in the Company.

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

He is Chairman of resource companies Devex Limited, Doral Minerals Limited and Carnarvon Petroleum Limited and of portfolio investment company Caledonia Investments Limited. Other Directorships include Pilatus Capital Limited, Art Exhibitions Australia Limited, The Centre for Independent Studies Limited, and the Museum of Contemporary Art Limited. He is a former Director of the Australian Stock Exchange Limited (1986–87).

Philip A Pearce BCom
Non-Executive Director (Age 61)

Relevant interest in 10,000 shares.

Other Directorships include Australian Resources Limited, SGIO Insurance Limited, J Boag & Son Limited, Becker Group Limited and NM Rothschild & Sons (Australia) Limited. Formerly he was Chief Financial Executive Officer of Woolworths Limited and Managing Partner of Arthur Andersen & Co.

Kerr Neilson BCom, AIIMR
Managing Director (Age 46)

Relevant interest in 1,152,401 shares.

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

Andrew M Clifford BCom(Hons), ASIA, ASA
Director (Age 30)

Relevant interest in 1,002,401 shares.

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

Malcolm Halstead ACA
Director and Secretary (Age 38)

Relevant interest in 992,401 shares.

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

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 1996, and the number of meetings held and attended by each Director.

	BOARD MEETINGS		SUB-COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED
MG Darling	9	9	1	1
PA Pearce	9	8	1	1
WK Neilson	9	9	1	1
AM Clifford	9	8	1	1
RM Halstead	9	9		

Sub-committees were formed for the purposes of signing the Financial Statements.

These committees consisted of MG Darling and WK Neilson for the six months ended 31 December 1995 and PA Pearce and AM Clifford for the year ended 30 June 1996.

CORPORATE GOVERNANCE

Audit Committee

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

Directors' Compensation

The Executive Directors receive no remuneration from the Company. The Executive Directors review and determine the remuneration of the non-Executive Directors and may utilise the services of external advisers. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the non-Executive Directors. The maximum amount of non-Executive Directors' fees is set at $150,000 per annum for the first five years of operation of the Company. Current fees amount to $45,000 per annum.

Board Membership

The Board has a policy of having an equal number of non-Executive and Executive Directors, excluding the Managing Director's role. The Board may use external advisers to assist in such a process. The Executive Directors were nominated by the Investment Manager, Platinum Asset Management. The Managing Director is appointed in accordance with the Investment Management contract with Platinum Asset Management and the Articles of Association. Under the Articles of Association the Investment Manager nominated Director is not subject to rotational re-election.

Directors' Access to External Advice

The Board has a policy of enabling Directors to seek external advice at the Company's expense after first notifying the Board. The Board will review the estimated costs for reasonableness but will not impede the seeking of advice. The Board will not approve for payment costs that are unreasonable in amount.

Significant Business Risks

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

Ethical Standards

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

For and on behalf of the Board

PA Pearce
Director

AM Clifford
Director

Sydney
19 August 1996

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 1996

	NOTES	1996 $'000	27 APR 94– 30 JUN 95 $'000
Operating revenue	3	**76,762**	60,130
Operating profit/(loss)	4	**22,127**	(1,882)
Income tax attributable to operating profit/(loss)	5	**9,087**	1,411
Operating profit/(loss) after income tax		**13,040**	(3,293)
Amounts transferred from/(to) reserves	11	**141**	(97)
Accumulated losses at the beginning of the financial year		**(3,390)**	–
Total available for appropriation		**9,791**	(3,390)
Dividends	18	**6,000**	–
Retained earnings at the end of the financial year		**3,791**	(3,390)

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

BALANCE SHEET

AS AT 30 JUNE 1996

	NOTES	1996 $'000	1995 $'000
Investments	1(c),6	**112,832**	97,387
Current Assets			
Cash at bank	13	**25**	251
Receivables	7	**7,127**	1,117
Future income tax benefit		**68**	33
Total Current Assets		**7,220**	1,401
Total Assets		**120,052**	98,788
Current Liabilities			
Creditors	8	**1,349**	679
Provisions	9	**14,956**	1,402
Total Current Liabilities		**16,305**	2,081
Total Liabilities		**16,305**	2,081
Net Assets		**103,747**	96,707
Shareholders' Equity			
Share capital	10	**100,000**	100,000
Reserves	11	**(44)**	97
Accumulated profits/(losses)		**3,791**	(3,390)
Total Shareholders' Equity		**103,747**	96,707

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 1996

	NOTES	1996 $'000 INFLOWS (OUTFLOWS)	27 APR 94– 30 JUN 95 $'000 INFLOWS (OUTFLOWS)
Cash Flows from Operating Activities			
Dividends received		**1,958**	1,145
Interest received		**186**	1,992
Cash paid for purchases of investments and currencies		**(88,336)**	(140,385)
Cash proceeds from sale of investments and currencies		**83,830**	55,915
Establishment costs paid		**–**	(3,697)
Management fees paid		**(1,692)**	(1,381)
Other expenses		**(879)**	(665)
Income tax paid		**(1,568)**	(42)
Net Cash from Operating Activities	13(b)	**(6,501)**	(87,118)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**–**	100,000
Net Cash from Financing Activities		**–**	100,000
Net Increase/(decrease) in cash held		**(6,501)**	12,882
Cash held at the beginning of the financial year		**12,962**	–
Effects of exchange rate changes on cash		**(695)**	80
Cash Held at 30 June 1996	13(a)	**5,766**	12,962

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are a general purpose financial report prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, the Corporations Law and Schedule 5 of the Corporations Regulations.

The principal accounting policies adopted by Platinum Capital Limited (the Company) are stated to assist in a general understanding of these financial statements. These policies 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 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.

(c) Investments

(i) Classification

Investments have not been classified in the balance sheet as current or non-current assets. This treatment constitutes a departure from the basic balance sheet format prescribed by Schedule 5 to the Corporations Law. 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 and therefore the departure from the basic balance sheet format has been made to the extent necessary to give a true and fair view.

(ii) Valuation

With the exception of monetary items, which are stated at current market value, investments are valued at cost. 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 recoverable amount.

(iii) Treatment of unrealised gains and losses on monetary items

Realised and unrealised gains and losses on market value adjustments of monetary items are reflected in the profit and loss account. The unrealised gains and losses are then transferred to a revaluation reserve.

(d) Risk Management

(i) Currency hedges

Forward foreign exchange contracts, including options on forward contracts, are entered into, in the normal course of investing internationally, as a hedge against the currency risks associated with investments. Contracts open at balance date are accounted for as foreign currency monetary assets and liabilities – refer notes 1(b) and 1(c)(iii) above.

Currency positions are disclosed in Note 16(ii).

(ii) Derivatives

All derivative transactions – futures, options – are for risk management purposes; that is to protect the investment portfolio from either being invested or uninvested. All such contracts are primarily for the purpose of portfolio protection and are aimed at decreasing the level of market risk in the portfolio. All derivatives are valued at cost. Where, in the opinion of the 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 16(i).

(e) Income Recognition

Interest income is recognised on an accruals basis. Dividend income is brought to account as income on the ex-date applicable to each investment.

(f) Directors' Entitlements

Liabilities for Directors' entitlements to salaries are accrued at nominal amounts calculated on the basis of current salary 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) Preliminary Expenses

Preliminary expenses have been written off as incurred.

(i) Earnings per Share

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

2. COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. OPERATING REVENUE

	1996 $'000	27 APR 94– 30 JUN 95 $'000
Gross proceeds from disposal of investments and currencies	**74,678**	56,620
Dividend income	**1,876**	1,492
Interest income	**208**	2,018
	76,762	60,130

4. OPERATING PROFIT/(LOSS)

	1996 $'000	27 APR 94– 30 JUN 95 $'000
Operating profit/(loss) before income tax has been determined after:		
Crediting		
– Dividends received/receivable from other entities	**1,876**	1,492
– Interest received/receivable	**208**	2,018
– Net profit on sale of investments	**6,539**	876
– Net profit on foreign currency hedging transactions	**16,807**	113
Charging as Expense		
– Auditors' remuneration		
Auditing services	**26**	28
Other	**(2)**	15
– Investment management fees paid/payable	**1,708**	1,516
– Share registry and custodian fees	**281**	322
– Directors' Remuneration		
Income received or due and receivable by Directors of the Company	**45**	45
Amounts paid or payable to superannuation plans	**2**	2
– Permanent diminution in value of investment	**–**	736
Abnormal Item – no tax effect		
– Preliminary expenses	**–**	3,697

5. INCOME TAX

	1996 $'000	27 APR 94– 30 JUN 95 $'000
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the operating profit/(loss). The difference is reconciled as follows:		
Prima facie income tax on operating profit/(loss) at 36% (1995: 33%)	**7,966**	(621)
Tax effect on permanent differences which:		
Increase Tax Payable		
– Non-deductible preliminary expenses	**–**	1,220
– Non-deductible expenses	**2**	2
Reduce Tax Payable		
– Capital Gains Indexation	**(308)**	–
– Allowable credits	**(156)**	(110)
– Non-taxable receipts	**(33)**	(4)
Future income tax benefit not recognised	**1,611**	914
Effect of increase in tax rate on deferred tax balances	**–**	10
Underprovision of previous period tax	**5**	–
	9,087	1,411

5. INCOME TAX (CONTINUED)

	1996 $'000	27 APR 94– 30 JUN 95 $'000
The income tax expense attributable to operating profit/(loss) comprises:		
Current income tax provision	**9,163**	1,292
Deferred income tax provision	**(46)**	152
Future income tax benefit	**(35)**	(33)
Underprovision of previous period tax	**5**	–
	9,087	1,411

Future income tax benefit

Potential future income tax benefits of $2,608,000 (1995: $997,000) arising from $6,507,000 (1995: $2,032,000) of quarantined foreign losses and a permanent diminution in the value of investments of $736,000 (1995: $736,000) have not been brought to account at balance date as the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as virtually certain.

6. INVESTMENTS

	MARKET VALUE 1996 $'000	COST/ CARRYING VALUE 1996 $'000	MARKET VALUE 1995 $'000	COST/ CARRYING VALUE 1995 $'000
Listed securities	**107,799**	**106,511**	94,575	83,076
Unlisted securities	**578**	**580**	1,250	1,250
Currency hedges	**622**	**–**	(409)	350
Cash on deposit	**5,741**	**5,741**	12,711	12,711
	114,740	**112,832**	108,127	97,387

7. RECEIVABLES

	1996 $'000	1995 $'000
Current		
Unsettled trades	**6,657**	705
Accrued dividends and interest	**433**	374
Other	**37**	38
	7,127	1,117

8. CREDITORS

	1996 $'000	1995 $'000
Current		
Unsettled trades	**1,003**	417
Trade creditors (unsecured)	**346**	262
	1,349	679

9. PROVISIONS

	1996 $'000	1995 $'000
Current		
Dividends	**6,000**	–
Taxation	**8,850**	1,250
Deferred income tax	**106**	152
	14,956	1,402

10. SHARE CAPITAL

	1996 $'000	1995 $'000
Authorised Share Capital		
5,000,000,000 Ordinary shares of $1.00 each	**5,000,000**	5,000,000
Issued Share Capital		
100,000,005 Ordinary shares fully paid of $1.00 each	**100,000**	100,000

50,000,000 Options were allotted on 24 June 1994 and are exercisable on 1 July 1996 at $1.20.
Options not exercised on 1 July 1996 will lapse. Refer to Note 22.

11. REVALUATION RESERVE

	1996 $'000	1995 $'000
Balance at 1 July	**97**	–
Amounts transferred (to)/from Profit and Loss account:		
– Unrealised profits/(losses) on revaluation of monetary items	**(141)**	97
	(44)	97

12. EARNINGS PER SHARE

	1996 UNDILUTED	1996 DILUTED	1995 UNDILUTED	1995 DILUTED
Basic earnings (loss) per share – cents per share	**13.04**	**8.69**	(3.29)	(2.20)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**100,000,005**	**150,000,005**	100,000,005	150,000,005

There have been no conversions to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares during the financial year.

50,000,000 Options were issued free to Shareholders who participated in the Initial Public Offering pursuant to the prospectus dated 5 May 1994. The Options are exercisable at $1.20 on 1 July 1996 and, as per Note 22, no Options were exercised.

13. 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.
Cash at the end of the financial year, as shown in the Statement of Cash Flows, is reconciled to the related items in the Balance Sheet as follows:

	1996 $'000	1995 $'000
Cash at bank	**25**	251
Cash on deposit (Note 6)	**5,741**	12,711
	5,766	12,962

(b) Reconciliation of Net Cash from Operating Activities to Operating Profit/(Loss) after Income Tax

	1996 $'000	1995 $'000
Operating profit/(loss) after income tax	**13,040**	(3,293)
Increase in investment securities	**(22,415)**	(84,676)
Increase/(decrease) in cash due to exchange rate movements	**695**	(80)
Increase in settlements receivable	**(5,952)**	(705)
Increase in dividends receivable	**(81)**	(348)
Decrease/(increase) in interest receivable	**22**	(26)
Decrease/(increase) in prepayments	**1**	(38)
Increase in accrued expenses	**84**	262
Increase in settlements payable	**586**	417
Increase in income tax payable	**7,600**	1,250
Increase in future income tax benefit	**(35)**	(33)
Increase/(decrease) in deferred income tax	**(46)**	152
Net Cash from Operating Activities	**(6,501)**	(87,118)

14. STATEMENT OF NET ASSET VALUE

	1996 $'000	1995 $'000
Taking Investments at Market Value and Providing Realised and Unrealised Taxes		
Net Asset Value per Balance Sheet	**103,747**	96,707
Add Revaluation of investments	**1,909**	10,740
Proposed dividends	**6,000**	–
Less Deferred income tax on revaluation of investments	**(85)**	(3,602)
Future income tax benefit on revaluation of investments	**(17)**	–
Published Net Asset Value	**111,554**	103,845
Published Net Asset Value – cents per share	**111.55**	103.85

For Net Asset Value purposes all investments, currencies, derivatives are valued at net market value.

15. INVESTMENT PORTFOLIO

	QUANTITY	MARKET VALUE $'000
JAPAN		
Canon	148,000	3,889
Citizen Watch	222,000	2,336
Daiichi Pharmaceutical	58,000	1,130
Fuji Photo Film	166,000	6,619
Iino Kaiun	158,000	1,080
Kinki Coca Cola	71,000	1,358
Kuraya Yakuhin	25,000	550
Makita	99,000	2,031
Matsushita Electric Industrial	165,000	3,879
Mikuni Coca Cola	105,000	1,997
Ono Pharmaceutical	27,000	1,167
Sanyo Coca Cola	76,000	1,445
Sekisui House	267,000	3,846
Takeda Chemical	56,000	1,252
Yamanouchi Pharmaceutical	131,000	3,593
Yokogawa Electrical	98,000	1,242
		37,414
OTHER ASIA		
Hong Kong		
Fairwood Holdings	2,306,000	271
National Mutual Asia	1,003,000	1,114
		1,385
Indonesia		
Astra International – Foreign	422,000	774
Jaya Real Property – Foreign	593,500	2,419
Smart – Foreign	1,410,000	1,265
		4,458
Korea		
Boram Bank	30,930	466
Boram Bank – Rights	5,598	65
Cho Hung Bank	38,436	603
Chosun Brewery – Participation note	18,000	667
Daewoo Securities	29,200	901
Daishin Securities – Preference	15,000	151
Dongsuh Securities – Preference	3,800	42
First Fire & Marine Insurance	11,770	831

15. INVESTMENT PORTFOLIO (CONTINUED)

	QUANTITY	MARKET VALUE $'000
Korea (continued)		
Jinro	15,750	428
Jinro – New	3,165	81
Korea First Bank	37,200	419
LG Securities	15,290	350
Samsung Securities	15,000	588
Samsung Securities – Rights	2,400	66
		5,658
Total Other Asia		**11,501**
AUSTRALIA		
Aristocrat Leisure	200,000	578
Mobile Communications Holdings	1,250,000	2,990
Reef Casino Trust	744,714	534
		4,102
WESTERN EUROPE		
France		
Alcatel Alsthom	21,293	2,345
BNP	27,909	1,237
Bollore Technologies	5,950	847
Lagardere	72,689	2,366
Lyonnaise des Eaux	17,382	2,096
Lyonnaise des Eaux – Convertible bond	848	119
		9,010
Germany		
Carl Schenck	5,621	630
Daimler-Benz	1,343	908
Daimler-Benz Capital – Bond and stapled warrants	19	15
Deutsche Bank	9,900	591
Draegerwerk – Preferred	2,561	492
Duerr Beteiligung	1,470	705
Phoenix	5,016	980
Sommer Allibert	3,500	218
Wurttembergische Metallwarenfabrik – Preferred	300	68
		4,607

15. INVESTMENT PORTFOLIO (CONTINUED)	QUANTITY	MARKET VALUE $'000
WESTERN EUROPE (CONTINUED)		
Italy		
Banca Popolare di Novara	95,000	560
CIR	533,750	427
Editoriale La Republica	329,800	696
Ente Nazionale Idrocarburi	315,000	1,984
Olivetti	5,592,000	3,811
		7,478
Norway		
Bergesen – A	43,890	**1,152**
Spain		
Tabacalera – A registered	60,308	**3,834**
Sweden		
ICB Shipping – B	54,600	**831**
Switzerland		
Schweizersche Industrie Gesellschaft – Registered	1,096	1,602
Schweizersche Industrie Gesellschaft – B	73	218
		1,820
United Kingdom		
Pentland Group	1,012,000	2,285
Total Western Europe		**31,017**
NORTH AMERICA		
Canada		
Abitibi Price	119,641	**2,069**
United States		
A T Cross	18,000	404
Delta Airlines	23,370	2,453
International Business Machine	38,405	4,808
Lafarge	11,503	295
Novell	166,311	2,919
Overseas Shipholding	31,106	713
Showboat	39,875	1,519
Western Atlas	18,950	1,396
Zeigler	36,600	741
S&P 500 Sep '96	(45)	(203)
SPX Dec '96 Put Option	116	196
		15,241
Total North America		**17,310**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. INVESTMENT PORTFOLIO (CONTINUED)	QUANTITY	MARKET VALUE $'000
SOUTH AMERICA		
Brazil		
Banco Bradesco – PN	208,584,375	2,154
Banco Itau – PN	2,127,230	1,093
Souza Cruz – ON	93,939	1,035
		4,282
Peru		
Bayer – Trab	74,230	73
Cerveceria Backus & Johnson	20,570	308
Cerveceria Backus & Johnson – Trab	249,862	398
Industrias Pacocha – Trab	520,390	435
Peru Real Estate – B	2,000,000	826
		2,040
Total South America		**6,322**
AFRICA		
Ashanti Gold	5,900	147
De Beers Consolidated ADR Linked Unit	13,200	564
		711
LIQUIDS		
Outstanding settlements		6,083
Foreign exchange contracts		622
Cash		5,741
		12,446
Total Portfolio – Note 16 (i) & (ii)		**120,823**
Accounted for in Creditors		1,003
Accounted for in Receivables		(6,657)
Accounted for in Receivables		(429)
Total Portfolio – Note 6		**114,740**

16. 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 therefore subject to currency, interest rate and stock market risks.

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

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 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 Company is also exposed to liquidity risks – the possibility of being unable to obtain the fair market value of a derivative owing to prevailing market conditions – and manages this risk by only using derivatives in liquid markets.

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

16. RISK MANAGEMENT (CONTINUED)

(i) Investments at Net Market Value and Derivatives Exposure

	PHYSICAL $	FUTURES & OPTIONS $	UPSIDE (A) $	FUTURES & OPTIONS $	DOWNSIDE (B) $
Japan	37,413,840		37,413,840		37,413,840
Other Asia	11,501,109		11,501,109		11,501,109
Australia	4,101,787		4,101,787		4,101,787
Western Europe	31,017,341		31,017,341		31,017,341
Eastern Europe	–		–		–
North America	17,309,884	(29,189,855)	(11,879,971)	(29,189,855)	(11,879,971)
South America	6,322,647		6,322,647		6,322,647
Africa	710,734		710,734		710,734
	108,377,342	(29,189,855)	79,187,487	(29,189,855)	79,187,487
Liquids	12,445,568	29,189,855	41,635,423	29,189,855	41,635,423
Total Net Market Value of Portfolio	**120,822,910**	**–**	**120,822,910**	**–**	**120,822,910**

The above table categorises the Investment Portfolio in the same way that the Investment Manager does for day-to-day management.

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

(A) 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).

(B) 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.

16. RISK MANAGEMENT (CONTINUED)

The Company uses futures contracts in liquid markets and generally utilises short-dated contracts; those with 90-day maturities. Initial margin requirements and daily variation margin requirements on futures contracts are met in cash. Futures contracts have little credit risk as they are traded on recognised exchanges.

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.

(ii) Currency Exposure at Net Market Value

	PHYSICAL $	BOUGHT $	SOLD $	NET EXPOSURE $
Japan	37,129,515		(40,282,290)	(3,152,775)
Other Asia	10,796,076			10,796,076
Australia	5,542,655	77,761,095	(22,100,000)	61,203,750
Western Europe	31,536,795		(21,196,824)	10,339,971
Eastern Europe	–			–
North America	27,575,859	34,890,008	(29,071,989)	33,393,878
South America	8,242,010			8,242,010
Africa	–			–
Total Net Market Value of Portfolio	**120,822,910**	**112,651,103**	**(112,651,103)**	**120,822,910**

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.

(iii) Interest Rate Exposure

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. FRANKING ACCOUNT

	1996 $'000	1995 $'000
Opening Balance – Class C	**2,388**	–
On dividends received:		
Franked at 39% (A)	**–**	22
Franked at 33% (B)	**43**	77
On tax paid and payable:		
1993–94	**–**	86
1994–95	**–**	2,537
1995–96	**16,291**	–
Prior year tax provision – franking adjustment	**9**	–
Proposed dividends	**(6,000)**	–
	12,731	2,722
Amount of retained earnings that could be distributed as dividends and be franked out of existing credits or out of franking credits arising from the payment of income tax in the period subsequent to 30 June 1996, after deducting franking credits applicable to any proposed dividends:		
Accumulated profits	**3,791**	–
Less amounts transferred from reserves	**(44)**	–
	3,747	–

18. DIVIDENDS (FULLY FRANKED)

	1996 CPS	1996 $'000	1995 CPS	1995 $'000
Proposed – Final	**2.00**	**2,000**	–	–
– Special	**4.00**	**4,000**	–	–
	6.00	**6,000**	–	–

19. INVESTMENT MANAGER

(a) 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.

(b) Additionally a Bonus (Performance) fee is payable at 10% of the amount by which the Portfolio's annual performance exceeds the return achieved by the MSCI plus 5%. (MSCI is the Morgan Stanley Capital International World Accumulation Index.) Where the Portfolio's annual performance is less than the MSCI, the amount of the underperformance is aggregated and carried forward and deducted from the annual performance in the subsequent year before calculating any Bonus fee for that year. The aggregate of underperformance is carried forward until a Bonus fee becomes payable.

(c) At 30 June 1996 the annual pre-tax performance of the Portfolio was 11.55% and the corresponding MSCI was 7.25%. This represents an outperformance of 4.3% against the MSCI and 3.28% after deducting the prior period's underperformance of 1.02%. As the 3.28% is less than a 5% outperformance against the MSCI no Performance Fee is payable, and accordingly none has been accrued.

(d) The Investment Manager is to be paid a lump sum termination fee of 1.5% calculated on the value of the Portfolio on the 1st day of the month in which termination is effective. The fee is not payable if the termination results from the default or insolvency of the Investment Manager. Additionally a Bonus fee is payable for the period from the last calculation of the Bonus fee (as described in (b) above) to the date of termination.

	1996 $'000	1995 $'000
Amounts paid and payable to the Investment Manager for the year	**1,708**	1,516

20. CONTINGENT LIABILITIES

No contingent liabilities exist at balance date.

21. SEGMENT INFORMATION

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

22. SUBSEQUENT EVENTS

50,000,000 Options were issued free to Shareholders who participated in the Initial Public Offering pursuant to the prospectus dated 5 May 1994. The Options were exercisable on 1 July 1996 on the basis of one Ordinary Share for each Option at a price of $1.20. Any resulting Ordinary Shares would rank *pari passu* for dividends with respect to the financial years subsequent to 30 June 1996. Any Ordinary Shares issued pursuant to the exercise of Options would be listed as New Shares until after the Ex-Dividend date of 23 October 1996.

Options exercised and Ordinary (New) Shares issued on 1 July 1996	**Nil**	–

23. RELATED PARTY INFORMATION

(a) Directors

The Directors named in the attached Directors' Report each held office as a Director of the Company throughout the financial year to 30 June 1996.

(b) Directors' Remuneration

Remuneration received or receivable by the Directors of the Company, including aggregate amounts paid to superannuation plans, is disclosed in Note 4 to the Accounts. The number of Directors of the Company included in the figures disclosed in Note 4 to the Accounts is shown below in their relevant income bands:

	1996	1995
$20,000 – $29,999	**2**	2

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

(c) Interests in the Company by Directors and their Related Interests

During the year the Investment Manager purchased 952,400 shares in the Company. The Executive Directors are employees of and have a relevant interest in the Investment Manager and accordingly have a relevant interest in the shares purchased.

The aggregate number of shares and share options held by Directors of the Company and their Director-related entities at balance date:

	1996 ORDINARY SHARES	1996 OPTIONS	1995 ORDINARY SHARES	1995 OPTIONS
MG Darling	**3,300,000**	**–**	3,300,000	–
PA Pearce	**25,000**	**12,500**	25,000	12,500
WK Neilson	**1,152,401**	**100,000**	200,001	100,000
AM Clifford	**1,002,401**	**25,000**	50,001	25,000
RM Halstead	**992,401**	**20,000**	40,001	20,000

DIRECTORS' STATEMENT

In accordance with a resolution of the Directors of Platinum Capital Limited, in the opinion of the Directors:

(a) the accompanying financial statements of the Company are drawn up in accordance with Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law so as to give a true and fair view of the profit of the Company for the year ended to 30 June 1996 and the state of affairs of the Company as at 30 June 1996;

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as when they fall due; and

(c) the accompanying financial statements have been made out in accordance with applicable Accounting Standards and Urgent Issues Consensus Views.

For and on behalf of the Board

PA Pearce
Director

AM Clifford
Director

Sydney
19 August 1996

Scope

We have audited the financial statements of Platinum Capital Limited (the Company) for the period ended 30 June 1996 as set out on pages 25 to 45. The Company's Directors are responsible for the preparation and presentation of these financial statements and information contained therein. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

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

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

Audit Opinion

In our opinion the Financial Statements of the Company are properly drawn up:

(a) so as to give a true and fair view of:

(i) the state of affairs of the Company as at 30 June 1996 and its results and cash flows for the period ended on that date; and

(ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law;

(c) in accordance with applicable accounting standards and other mandatory professional reporting requirements

Price Waterhouse
Chartered Accountants

PK Merrett
Partner

Sydney
19 August 1996

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with section 715 of the Corporations Law, recorded the following information as at 31 July 1996.

Name	NUMBER OF SHARES	CLASS OF SHARE
Telecom Super Pty. Limited	5,185,700	ordinary

DISTRIBUTION OF SECURITIES

	CLASS OF EQUITY SECURITY ORDINARY
(i) Distribution schedule of holdings	
1-1,000	133
1,001 – 5,000	2,931
5,001 – 10,000	1,441
10,001 and over	1,313
Total number of holders	5,818
(ii) Number of holders of less than a marketable parcel	16
(iii) Percentage held by the 20 largest holders	36.33%

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of equity securities as at 31 July 1996 are listed below.

	NUMBER OF SHARES	%
National Nominees Limited	10,339,708	10.34
Credit Union Services Corporation (Australia) Limited	4,921,010	4.92
Austrust Limited	3,545,701	3.55
Caledonia Investments Limited	3,050,000	3.05
ANZ Nominees Limited	1,949,434	1.95
Merrill Lynch (Australia) Nominees Pty Limited	1,410,400	1.41
Westpac Custodian Nominees Limited	1,370,600	1.37
MLC Limited	1,225,000	1.23
Perpetual Trustee Company Limited	1,162,050	1.16
Cox Bros Coffs Harbour Pty Ltd	1,000,000	1.00
New Scotland Nominees Limited	1,000,000	1.00
National Nominees Limited	958,267	0.96
Mr John Hall	713,455	0.71
Perpetual Trustee Company	688,630	0.69
Permanent Trustee Australia Limited	550,000	0.55
Brispot Nominees Pty Ltd	500,000	0.50
Mr Archibald Norman Douglas	500,000	0.50
Mr Gordon Douglas	500,000	0.50
Mr Gregory Mitchell Maughan	500,000	0.50
Permanent Trustee Australia Limited	437,604	0.44

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	**15 October 1996**
Ordinary Shares trade Ex-Dividend	**23 October 1996**
Record (books close) date for Final and Special dividends	**31 October 1996**
Final and Special dividends paid	**12 November 1996**

These dates are indicative and may be changed.

Additional Information in accordance with the ASX listing requirements for the Company

1. The total number of securities transactions entered into during the reporting period, together with total brokerage paid during the reporting period:
Number of transactions – 538 Total brokerage paid – $502,087

2. Shareholders may review a list of investments acquired or disposed of by the Company in the reporting period at the Registered Office.

3. A listing of the Investment Portfolio may be found in Note 15 to the Accounts.

4. A summary of the fees paid or payable to the Investment Manager may be found in Note 19 to the Accounts.

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

(a) the Investment Manager will invest the Portfolio in accordance with the investment objectives and restrictions of the Company and subject to the Articles, the Management Agreement, the ASX Listing Rules, the Corporations Law 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 cannot retire in the first three years but thereafter 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; or
  (iii) the Investment Manager selling or ceasing business or within the first three years Mr Kerr Neilson ceases to be employed by the Manager.

PLATINUM CAPITAL LIMITED

IN OTHER WORDS

Global perspectives from leading economic commentators

CONTENTS

DESIGNED AND PRODUCED BY 3C

IN OTHER WORDS

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Global perspectives from leading economic commentators

PREFACE

LAST YEAR WE TRIED TO GIVE READERS *some insight into our investment process. We described the desk activity of gathering information, analysing it and preparing ourselves for field trips. This was followed by some light treatment of our experiences on the road, visiting various companies.*

To develop this theme further, we decided to incorporate some pieces that we digest in the process of formulating investment ideas. While much of our time is spent on assessment of individual companies, there is also a need for us to keep abreast of broader issues, be they political, economic or technological.

Over the last 10 - 15 years, there has been a discernible increase in the quantity and sophistication of services provided to global fund managers. In earlier times, an international fund manager would use the services of an economist together with his own understanding of the market in formulating views about the prospects for investment in a global sense. The information was relatively scarce and rudimentary. This has changed with the emergence of investment strategists. Generally working in teams, they brew up a concoction of economics, history back-tested models and measures of market sentiment. Thus we find large broking houses employing not only regional but also global investment strategists who produce intensive studies in their attempts to predict the future. The real value to investment managers from these writings is the triggering of ideas rather than necessarily the conclusions.

To elucidate this aspect of our work we have included three pieces from prominent strategists. Each of these writers is highly regarded and each writes from a slightly different perspective. The first piece by Jonathan Wilmot of CS First Boston reminds us of some of the similarities between now and the turn of the last century. Alexander Kinmont's piece on Japan and Soviet Russia, Ideological Twins, is an abridged version of a scholarly article that will help readers understand many of the supposed contradictions within the Japanese economy. Alexander is the Japanese market strategist with Morgan Stanley. The last article is produced by David Roche of Investment Strategy and deals with the controversial issues of European Monetary Union. David was formerly with Morgan Stanley and now operates his own consultancy.

Although these writings may seem laborious, I think the insights you will derive will be worth your time.

KERR NEILSON

MARKET FOCUS: LAISSEZ-FAIRE ABOUT GROWTH

The late 19th century is often called the golden age of laissez-faire... Today's global economic structure more nearly approaches that period than any time before or since.

by JONATHAN WILMOT, CS FIRST BOSTON

THE LATE 19TH CENTURY is often called the golden age of laissez-faire. Today's global economic structure more nearly approaches that period than any time before or since. Internationally mobile savings oscillating between the safe core and the risky periphery; a revolutionary cluster of new technologies; new markets and sources of cheap supply (food then, manufactures now); the spread of improved management techniques; an ideological bias in favour of sound money and free markets; excess savings in the leading (but declining) industrial power (the UK then, Japan now); grand projects of unification and monetary union: these are some of the striking parallels.

Even some of the obvious differences turn out to be disguised similarities. There is no classical gold standard today, but even under that regime it was the bond and currency market vigilantes who most effectively policed the system. Today, government has a much larger role in the economy but, even in the 19th century, leading countries sometimes had very high government debt-to-GDP ratios, (usually the legacy of war) which had to be periodically rolled back by running primary budget surpluses during peacetime growth. And, while it is true that the state now cushions the impact on individuals of ill health, unemployment, and old age, the actual and contingent cost of doing so makes activist fiscal policy practically impossible.

More impressive still, is the fact that one can observe so many similar trends in the late 19th and 20th centuries: historically low and less volatile inflation; downward pressure on real wages and job security in the high wage economies; a tendency to outright deflation in the hard money countries; creeping protectionism and rising inequality; capital's dominance of labour; frequent bubbles and crashes in financial markets; periodic banking crises; episodes of protracted slump - caused as much by a previous period of over optimistic investment in industrial capacity as by the collapse of a massive financial bubble. It is worth noting that the long decline in world interest rates that accompanied all this lasted about 30 years (1867 to 1897 in the UK). That there was also an underlying tendency for international bond yield convergence, with occasional sharp

interruptions. And that real bond yields were, as far as the data allow us to tell, about the same as we have experienced over the last decade.

But it is also worth remembering that the golden age of laissez-faire ended rather badly for capitalists, bondholders and international relations. The growth of very large firms eventually produced the logical and in some ways necessary antidote: larger and more powerful unions. (To quote from a recent academic paper "Wage, price and output indices ... show a decrease in nominal wage flexibility - the change in wage inflation associated with output fluctuations - after the 1880s, following an increase in strike frequency linked to the spread of large scale manufacturing.") World inflation started to pick up, though at first very slowly, in the mid-1890s and world interest rates started to trend gently higher shortly thereafter. The political consensus in favour of laissez-faire came under increasing threat in the early 20th century, and there are many who argue that the inexorable competition and social strains of laissez-faire contributed directly to more strident nationalism and to the outbreak of the First World War.

This ancient history may be surprisingly relevant to the performance of global markets over the next few months. It is already possible to discern a creeping political reaction against the harsher aspects of late 20th century laissez-faire. The best and only antidote is a period of growth, rising employment and spreading prosperity. In our modern democracies it is neither feasible nor desirable that policy be geared to the immediate gratification of bond and shareholders, even if most workers are stakeholders via their pension and insurance policies. In any case, global competition, budget discipline, industrial restructuring and rapid technological advance are supposed to be a formula for improving the trade-off between growth and inflation. Central banks need to allow this proposition to be tested, without taking cavalier risks.

The point can be made even more simply: in Europe sustained convergence and the achievement of European Monetary Union depends on a return to growth; in Japan a sustainable upturn in private demand is essential if public finances and bank balance sheets are to be slowly repaired; in Latin America recovery has started but needs to continue to buttress reform and justify earlier austerity; in Russia too. Even in the US, a healthy economy (and stock market) through November will help the cause of free trade and fiscal responsibility in the next presidency. That is why none of the G3 central banks are prepared to take an aggressive posture towards the current pick-up in world growth. And rightly so. As this idea sinks in, core real yields will ease back, and markets will celebrate. Even, and perhaps especially, the apparently overvalued US equity market.

JAPAN AND SOVIET RUSSIA, IDEOLOGICAL TWINS

From 1928 to 1938 Russia was the fastest growing major economy in the world. It did not escape Japanese notice that 1928 was the year in which Stalin promulgated the first five-year plan, creating the first control economy in the world.

by ALEXANDER KINMONT, MORGAN STANLEY

SOVIET RUSSIA: AN APPEALING MODEL IN THE 20S

Japan was fighting Russia in North Manchuria up to 1934. From 1928 to 1938 Russia was the fastest growing major economy in the world - not a comforting prospect for a Japan which "mindlessly extrapolated" such growth into the future, just as did later observers in the 1950s. It did not escape Japanese notice that 1928 was the year in which Stalin promulgated the first five-year plan - creating the first control economy in the world. Moreover, the domestic situation was fertile ground for economic theories that appeared to surpass cold-hearted capitalism. The 1927 stock and property market collapse left around 3 million unemployed.

1940 - THE END OF LIBERAL CAPITALISM IN JAPAN

Manchuria was an offshore laboratory - experience acquired there had still to be transferred back to Japan. During the late 1930s control economy measures seeped into the legal system under cover of the war effort. Nevertheless each new element of control seemed inadequate to the Manchurian returnees. The final battle over economic development came in 1940, as the fight was joined over a new commercial code. Kishi Nobusuke - post-war Prime Minister, but then jimujikan or chief bureaucrat at the MCI, MITI's (The Ministry of International Trade and Industry) forerunner - clashed with his minister at MCI, Kobayashi Ichizo. Kobayashi was a serious capitalist, responsible for the foundation and expansion of the Hankyu group. Kishi on the other hand was a pragmatic ideologue - a characteristically hard Choshu man who had been the chief economic bureaucrat of Manchuria.

With Kobayashi out of the country in 1940 - incidentally trying to break the oil embargo of Japan - Prime Minister Prince Konoe, Mr Hosokawa's ancestor, slyly demanded that ministries present their plans for reform. Kishi had fortuitously at hand precisely such a blueprint, based on solid Manchurian/Soviet economics, in the September 13, 1940, Cabinet Planning Board's "General Plan for the Establishment of the New Economic Structure". As can be imagined, capitalists rebelled at proposals which gave complete control of investment and profitability to the state, arguing that the CPB was full of "Reds". Though this incident ultimately led to the resignation of Kishi - who later admitted that he always was "a little red", and

the interests of private capital were able to secure a purge of the most obviously "red" CPB officials, the defeat of western-style capitalism in Japan was quickly encompassed.

NO CHANGE IN 1945

It was the outright incompetence of the Occupation, which closed off, perhaps for ever, Japan's way back to a more obviously recognisable form of capitalism. By dissolving the zaibatsu and purging 210,000 Japanese, mainly business and military men, from public life, the Occupation destroyed the possibility of any cohesive representation of the interest of private capital against the state. By contrast, only nine Ministry of Finance (MOF) officials were purged. In an unusually elegant essay in Chuo Koron in 1977, Sakakibara Eisuke and Noguchi Yukio argued that "the preservation of the wartime financial controls, together with the failure of the Occupation authorities to reform the financial sector extensively, proved to be of decisive importance in determining the pattern of Japan's economic expansion". They noted then - and it is still true today - that there had been no significant change in either the number of banks or the structure of the banking industry. It still retains its wartime form. If the banking system retains its wartime form, though there have been changes on the periphery, it is hardly surprising that the overall orientation of the economy is unchanged. The overall orientation of the economy is to acquire production capabilities, not to generate profits.

The ideological foundations of the economy remain unchanged. Let us go back again to 1940. The key propositions of the New Economic Order were as follows: the separation of the ownership of capital from the exercise of management in order to co-ordinate the aims of business and the aims of the state; revision of the Bank of Japan (BOJ) articles in order to increase the power of the BOJ to direct bank credit; mobilisation of the public in order to raise the savings rate; low interest rates in order to help capital-intensive industry; and overall revision of labour relations.

The separation of the ownership of capital from the exercise of management was rendered absolute by the destruction of the pre-war equity primary market and the corporate bond market. This was the aim of the revision of the BOJ law - still in force today - which gives the bank's objective as "the appropriate application of the state's total economic power".

EQUITY - ANATHEMA IN JAPAN

The system reached its apotheosis post-War - the fragmentation of the zaibatsu increased the power of the group bank relative to the corporation. Whereas stock issues had contributed 68% of external corporate financing in 1935, they contributed only 10% in 1963, when rapid post-war growth should have suggested much greater reliance, and never more than 14% ever since. Direct bank finance accounted for only 31% of industrial fund raising in 1931 - it peaked at 96% in 1984. Not only was equity issuance destroyed, but that of bonds, too, by the simple devices of establishing the Public Bond Issuance Committee (chaired by the Industrial Bank of Japan), which decided who could issue - on grounds not related to credit-worthiness - and requiring collateral for each issue. Banks had the right to collect fees for monitoring the collateral, which rendered bonds uncomfortably expensive compared with rate-controlled bank debt.

Yet a proper equity capital market could have been developed in the early 1950s if the BOJ had not in the "high" period of post-war controlled finance followed the policy of "overloan" in order both to jump-start growth and to gain almost complete bureaucratic control over the allocation of capital within the economy.

By allowing banks to borrow more than is rationally defensible at undifferentiated rates from the central bank, which allows the banks to lend at undifferentiated rates to business, the need for equity funding is so diminished as to eradicate the need for the stock market to become a capital market.

Even now, when the pure form of the system has been superseded, its shadow still hangs over banks because they have no experience with credit rating or differential loan pricing according to credit worthiness. This leaves the BOJ with a problem. The banking system is designed to act without restraint.

LABOUR - PREMEDITATED NOT ORDAINED BY CULTURE

Labour practices are the other key element of the modern economy. The totality of the transformation is impressive. Though in 1927 exactly the same proportion of the workforce changed jobs annually in the United States and Japan (4.3%), in 1993 only 1.5% of the workforce changed jobs in Japan versus 4.4% in America. Whereas in 1935 only 36% of company employees

were employed directly from university and had never worked anywhere else, by 1993 the "salariman" ratio had risen to 93%.

Peter Drucker argues that the maximisation of volume is an entirely rational reaction to the realities of Japan's labour situation. He starts by noting the high proportion of Japanese workers recruited straight from university or school. The productivity per man hour of such recruits may be lower than that of a person who has been on the job for 25 years, but their productivity per unit of wages is far - in his estimate three times - higher than their older colleagues because of pay based on seniority. The business that can expand faster therefore has an in-built, "almost unbeatable", labour productivity advantage. Conversely, "the business that cannot increase its volume quite rapidly finds itself losing productivity".

He continues, "Under the Japanese system, labour is, in effect, a capital expenditure, and one in which, contrary to all other capital expenses, the fixed charge increases as the 'investment' gets older". This reminds one that labour costs are a more important fraction of sales for listed companies than depreciation. Drucker concludes with the frightening observation that "the much-vaunted increase of Japanese productivity since the 1950s represents in substantial part, perhaps as much as half, non-recurrent shifts in the labour force rather than genuine productivity increases". The push towards volume growth engendered by the reorganisation of labour relations, therefore, remains an important factor in the successful operation of the system.

NO PROPER PRIVATE SECTOR MEANS LOW, OR NO, RETURNS

By these developments, the divorce of shareholders and managements could be perfected. Put very simply, the overall architecture of the system has relegated the making of money to irrelevance or sometime worse - actual illegality - and that notion overhangs current management. The whole tone of pre-war economics is recognisable to anyone who has visited Japanese companies - all the same words keep recurring; seisan noryoku (production capacity), zosan keikaku (plan to increase capacity), gokanen keikaku (the ubiquitous five-year plan) - all focused on the expansion of production potential rather than the identification of profit opportunities.

However, Paul Krugman notes in his article "The Myth of Asia's Miracle", "Japan, unlike the Asian 'tigers', seems to have grown both through high rates of input growth and through high rates of efficiency growth". Yet he also suggests that Japanese growth has been "achieved only through a very high rate of investment, nearly twice as high a share of GDP as in the United States". Krugman's view is that "one ends up with the probable conclusion that Japanese efficiency is gaining on that of the United States at snail's pace, if at all ....".

Taking the figures provided by Alwyn Young of MIT (on whose work the thrust of Paul Krugman's article is based), themselves drawn from Summers and Heston, it is clear that Japan has performed exceedingly well in terms of annual growth of output per capita. Over the period 1960-85, Japan's per-capita output grew at an annual rate of 5.5%, only fractionally behind that of the main Asian "tigers". Considering the different scale of Japan, this is indeed a major achievement. However, just as the total factor productivity calculations performed by Young expose the entirely unexceptional nature of growth in Asia, so they relegate Japan from a top-10 placing among the 66 countries surveyed, to a less glamorous 32nd spot, sandwiched between Greece and Luxembourg.

It is worth speculating on the origin of the difference between Japan and, say, Singapore, which studies show to have experienced negligible gains in efficiency. Since in large part, defeat was attributed to inadequate technology, Japan has become voraciously, some would say indiscriminately, acquisitive of technological developments. In addition, from the early post-war period onwards, Japan was granted open access to both US technology and preferential access to the US market - both factors that may explain some of the efficiency gains secured during that period.

But in a changed world, Japan will probably have to pay the full economic price of what it buys from now on. It is perhaps also a comment on the relative paucity of important new technology developed wholly in Japan that the example of Toray's carbon fibre is always used - it's the exception that proves the rule.

In one of Alwyn Young's articles, I was particularly drawn to the notion, that the sort of force-feeding of industry indulged in by Japan probably

involves increased inefficiency if it moves too far about beyond the boundaries of "learning by doing", or the limits of the existing accumulated technical expertise of the populace. The endless shifting into "higher value-added areas", which is held out by, for instance, Mieno Yasushi (former BOJ Governor), as the only salvation of the economy may in fact be counterproductive.

IS THIS SYSTEM ITSELF UNSUSTAINABLE?

The conservative supremacy of the 1980s in both Britain and America and the abiding hold of modern conservatism's ideas on investors and stock brokers, together with the collapse of the Soviet Union and China's apparent embrace of capitalism, make it peculiarly difficult to accord correct assessments to control economies. After all, we know these systems don't work.

Japan is therefore a challenge, a control economy which has gone on working long after it should, according to our preconceptions, have failed. The overall design of the Japanese economy has but one aim - the rapid expansion of capacity. It was realised as early as the 1930s that the free functioning of private capital markets was inherently opposed to this project. Consequently, both the equity market and the corporate bond market were excluded from an active part in financing post-war reconstruction - and to all intends and purposes remain excluded.

The result of this unusual system of corporate finance has been to leave corporate Japan without a consciousness that capital has a cost. During the high-growth era, factors such as technological catch up and relative labour costs combined to allow higher growth, but even in the great period of high growth only around a quarter of overall growth could be ascribed to technological progress per se.

With the end of the high-growth era investing at above the cost of capital might have become important, but did not because of the growing existence of unrevalued assets. The period of high growth had, of course, vastly inflated asset values, quite apart from the twin bubbles of 1961-63 and 1970-73. With this cushion available, capital could still be put to work in ignorance of its cost. In due course, the very manner in which capital was (inefficiently) used - buying stock holdings and property - led to a rise in the cushion of "hidden assets". The rise in the most recent bubble was merely the most extreme stage in a long-run process.

Great effort has been expended in trying to prove whether control of capital markets has resulted in a lower cost of capital for Japanese companies compared with their competitors, or that the bureaucracy has variously been "good" (Chalmers Johnson) or "bad" (Kent Calder and the Economist magazine) at directing the economy. Both these positions have missed the point. If private capital markets have been excluded from any role in allocating capital, there can be no true consciousness of capital having a cost, and if there are no restraints placed on management by capital markets, then managers become essentially indistinguishable from bureaucrats - all are equally functionaries.

The real threat to and the real weakness of control systems, however is in their inability to mark to market. No land in Japan is marked to market, neither are whole categories of stock holdings, or most debt. The economy is unable to bear the dislocation that would be caused by general revaluation - and so loses efficiency again by becoming unable to reallocate unproductive capital with any vigour.

We must, I think, identify the erosion of hidden assets as the eventual trigger for either failure or reorganisation. The system has been in a sense dysfunctional probably since the end of the high-growth era in 1969. Only accumulated hidden assets and their periodic replenishment by bubbles have allowed the continuation of the habits of the high-growth era. Now the scale of the bubble losses threatens even them, and at the core of the system, the banks, too.

It is entirely justified for us to ask whether or not the whole thing is destined to go the way of its main ideological mentor, the Soviet system, when the hidden assets run out. For equity investors this suggests that, contrary to popular perception, the Japanese market does exhibit serious downside risks. Stalinist impulses and stock markets rarely cohabit happily. It also means that we are not dealing with an "ordinary cycle". Japan has come so far down the road of diminishing returns that full scale reorientation is now necessary - and will remain so even when the coming cyclical upturn makes people forget the underlying difficulties.

As investors we often ask the wrong category of question.The proper question is not, "How far can ROE (return on equity) bounce in the coming cycle?", but "Will the slope of the trend-line change?"

EMU: IF IT WERE DONE... T'WERE WELL IT WERE DONE QUICKLY

The flat world that Europe's political "control freaks" will have designed for themselves will no longer have any acceptable economic or financial safety valves. So the pressure is exerted on society at large. And the politicians are in for a shock.

by DAVID ROCHE, INVESTMENT STRATEGY

OUR EMU SCENARIO

There's an attraction in being the last to say, as we do, that there's a 60% probability European Monetary Union (EMU) won't happen on time and an 80% chance of it blowing up if it does. But is our conviction based on science, or a love of being at an angle to the world?

We think the probability is against EMU happening on time. It all depends on the German and French economies. Germany's public spending cuts will get implemented quickly and are likely to be worth 2% of GDP. France has no equivalent package. Indeed, its attempts to plug budget deficits with increased charges and taxes simply create bigger deficits down the road, by hitting demand.

The German economy is now recovering. The recovery is led by export orders, principally for capital goods. But domestic orders will revive too under the impetus of rising labour income (despite falling government handouts). France cannot recover in the same way. It has no capital goods industry to plug into global restructuring and industrial relocation. Furthermore, its car industry, after years of Calvet-style ignorance masquerading as management, is now on the ropes, and it accounts for 10% of manufacturing output.

Therefore, French growth will lag. Germany will meet the Maastricht criteria for public deficits and France will fail. The arrogance of European politicians is that they think politics can win out over economics and that the German people will, in an election year, willingly give up the DM for what will inevitably be a poor quality alternative, the Euro. By the time the matter comes before the Bundestag and Bundserat in spring 1998, the argument of abandoning the DM to save German jobs won't wash. The economy will have recovered. And the vast majority of those working won't buy the connection between jobs and abandoning the DM.

So we are now at the zenith of political (and market) optimism about EMU and at the nadir of economic realism. Things only have to change a little bit for our convictions to pay off. The swap will happen when markets cop on that France is in deep trouble on public finances and jobs, despite the protestations of the politicians (who will never admit it). The timing of that is when signs of German economic recovery and the French lack of it

become clearer. That could be when the Juppé government presents an unrealistic 1997 budget in the autumn.

Being short the French franc and bonds and long the DM and bunds will pay handsomely. This will happen as the yield spread on French ten-year bonds over German bunds goes from zero to 100bp, mirroring the fiscal quality gap between the two. There's an argument for holding equity positions the other way round (long France and short Germany) based on the thesis of an ultimate devaluation of the French franc. But, given the quality of German corporate restructuring, we are long both French and German equity markets.

And market realisation that EMU could fail also makes it attractive to go short Southern Comfort Countries (SCCs) bonds, particularly in Italy where optimism is well overdone.

If EMU falls to bits, UK financial assets would also do well. It's a reasonably well-run country, with a globalised, investor-friendly, and relatively cheap corporate sector. UK financial assets currently incur a big risk premium because of their likely exclusion from the EMU zone. But no EMU would mean no risk premium.

THINKING THE UNTHINKABLE - IF EMU HAPPENS

The consensus is that political determination will make EMU happen, more or less on time. Then the DM would remain weak and so would bunds. Who wants to own something that will cease to exist and where you get your money back in debased silver?

In contrast, you should own the bonds of the high debt, high deficit SCCs. Once in the EMU zone, SCC bond holders will get paid back in better quality assets than what they paid out, and they get a higher yield in the meantime.

SCCs bond yield differentials to German bunds are what investors get paid for the higher risks of default and devaluation. But if SCCs are in EMU, the devaluation risk goes. And most of the default risk goes too. That's because most governments default on their debts by printing money to create inflation, which devalues their debts. Inside EMU, currency risk, and therefore relative inflation risk, is gone.

The residual risk is "can't pay, won't pay". But that risk is minimal for political and financial reasons. Default by any EMU member state cannot be countenanced as it would destroy EMU and the EU. France and Germany would have to bail out any potential SCC defaulter. But matters would never get that far, because the liabilities of all EMU governments would be in the same currency. The European Central Bank (ECB) would have to refuse to discount a member state's paper in order for the country to default, but it would have no power to do so.

The practical consequence of all this is demonstrated by the Belgian bond market. The Belgian yield spread to Germany has fallen to 20bp for ten-year paper. Everyone knows that either Belgium will be in EMU or it'll move to a Hong Kong-style currency peg with the DM. If Belgium is in EMU, the devaluation risk inherent in owning a slug of Europe's most indebted currency is gone. Similarly, under a currency peg with the DM, all Belgian public debt would be convertible into, and serviced in, either DM or BFr at the investor's choice and at the fixed-peg exchange rate.

So the market has concluded that the only risk in Belgian bonds is the default risk, which is marginal. Consequently, Belgium enjoys (and Belgians do very much enjoy) virtually the same interest rates as Germany, without having anything like the same quality of economic structure or public finances. No wonder highly-indebted SCCs are desperate to join EMU, while low-indebted, free market-oriented Britain abhors the idea. European integration is all about costs and benefits, not irreconcilable cultures, football yobbos and xenophobia.

Of course, interest-rate spreads between SCCs and Germany are influenced by each individual economy's policy risks, debts and deficits. Inside or outside EMU, Greece is not Sweden. But the default risk will ultimately be reduced by almost as much as the devaluation risk for all SCCs, provided the market thinks SCCs are EMU-bound within the life span of their bonds.

MORE HASTE, LESS SPEED

But will SCCs get into EMU immediately, if ever? If you believe in EMU, there's a strong argument for some SCCs (Italy, Spain, Portugal and Sweden) getting in smartly. That's because leaving them out carries a big political risk for those who do go in.

First, exclusion would increase SCC interest rates well above today's levels (some considerable measure of optimism about SCC membership is already reflected in current interest rates). Higher interest rates would skittle SCC budget arithmetic. And that would mean permanent exclusion from EMU, leaving the excluded SCCs with no alternative but to go for growth through periodic competitive devaluations. That policy could also be allied with a return to devaluing SCC debt burdens by tolerating somewhat higher inflation.

The victims of these policies would be the core EMU countries. They would be transformed into a cosmic centre of deflation. Therefore, if EMU is to work, not only do the SCCs have to be included in EMU, they have to be included fast.

Diabolically, this is also a self-fulfilling prophesy. If the market perceives that SCCs must be included quickly, the DM and bunds will be weaker, because the greater will be the debasement relative to the DM of the DM's successor, the Euro. The corollary is also true. The greater the number of lousy quality SCCs that are included in EMU, the greater the mark-up will be for owning their currency and bonds, because investors will be paid back in something alloyed to the DM.

The weaker the DM is, the stronger the SCC currencies will be, and the lower SCC interest rates will go relative to German rates. That matters to SCC governments a lot. Stronger SCC currencies spell lower interest rates. And the interest expense on public debt is the major determinant of SCC budget arithmetic (with the exception of Sweden).

So if the markets believe that the SCCs are going into EMU, they go to work to make it easier for them to get in. And the shorter the time that the markets hypothesise it'll take to include SCC countries in EMU, the bigger the positive effect on SCC budget arithmetic and the more likely the SCCs are to make it into EMU. The beauty of the model is undeniable?

Assuming that we're dead wrong on EMU, and it happens more or less on time, then we believe EMU will be a broad rather than a narrow church by the year 2000. Certainly, Sweden, Italy and Spain would have to be inside by then. Our forecasts of SCC bond yields under an "EMU happens" scenario are conservatively provocative. The lesson for investors who buy the EMU story is to be long SCC bond markets and short FFr bonds (in case EMU doesn't happen after all).

THE EMU BLOW-UP

There's a 60% probability of EMU not happening on time. But if it does, it has an 80% chance of blowing up afterwards. And the blow-up will be a lot more conclusive than an exchange-rate crisis.

There are three structural reasons why EMU could fail. First, there is no mechanism for fiscal transfers within the EU to offset the pain of adjustment of peripheral economies to the core. Second, the labour markets of Europe are not standardised or liberalised. So structural unemployment is the adjustment mechanism for the harmonisation of inflation and growth, as well as of monetary and fiscal policies. France's 25% youth unemployment already shows the way. But that's just the trailer to the main feature when the tide of EMU deflation sweeps along the Mediterranean shore. Third, the integration of Central Europe into the EU will provide a whole new source of cheap labour and imports, as well as competitive devaluations, for EMU members to contend with.

The most likely way in which failure will show is in a severe post-EMU recession with its locus in France. If EMU happens, it will do so despite France failing to meet the Maastricht budget deficit criteria (and not by a little, whatever the fudged pre-EMU budget arithmetic is cooked up to show). The Germans would have to get the French to agree to further fiscal stringency post-EMU, if EMU was to find muster in Germany. But the French would continue to try and preserve le Grand État, while covering costs with higher taxes and contributions sociales. That would put the French economy back into recession.

That France would flip and become a deregulated country of small government is highly unlikely. France is the birth place of centralised "mind over market" philosophy, which has done more to wreck Europe economically than even communism. And the pain of changing course could hardly be envisaged by France's political elite, even if they were all sent for re-education to some anti-ENA institution.

The country's character is writ deep in its financial arithmetic. France spends more, as a proportion of GDP, than any other European country on handouts to its transfer-addicted citizenry, making French government primary expenditure the highest in the G7 bloc. That's because of France's rigid labour markets. Public sector employment is the highest in Europe,

while the private sector fails to create jobs. Don't fool yourself that you can change this without changing an entire political class. The bottom line is that under EMU French jobs will migrate to Germany.

Sooner or later, the same fate would befall other SCC EMU members. That's because EMU-land is likely to be a pretty chilly, deflationary place. It will remain so as long as its policy makers continue to marry three economically fatal elements in their thinking: big government, fiscal stringency based on high taxes, and "mind over market" micro-economic policies (thou shalt not fire anybody, or open your shop at ungodly hours, etc).

History will judge Europe's mediocre leaders in this decade against policies that shrink demand with fiscal charges, that kill individual motivation and responsibility through taxes, handouts and anti-market social laws, and hamper private sector dynamism by failing to liberalise their economies. All common economic sense has been sacrificed in pursuit of a chimeric political goal: European integration. The globalising world economy would have achieved integration in Europe anyway, as it is doing in Asia, without our beloved leaders' mediocre presence ever gracing superfluous European summits.

In an ERM world of exchange rate bands, where stupid economic policies create unacceptable levels of unemployment, they get attacked through financial markets, whose volatility is a relatively harmless kind of tooting that prevents worse, and usually produces the desired change in policy (devaluation). Investors would sense the unsustainability of idiotic economic policies and tilt at incompetent governments in currency and bond market jousts. But in the awful, silent spring of early EMU, there will be no currency markets left to upset. The flat world that Europe's political "control freaks" will have designed for themselves will no longer have any acceptable economic or financial safety valves. So the pressure is exerted on society at large. And the politicians are in for a shock.

Europe on the road to integration is much like a car equipped with shock absorbers to iron out the bumps. Abolish the shock absorbers and the bumps don't go away. Indeed, the chassis now takes the bashing instead and finishes by falling to bits. That's exactly what will happen to Europe post-EMU. The body politic will have to absorb all the shocks in terms of regional disparities and unacceptable levels of unemployment.

Dissatisfaction will out, but no longer through volatility in financial markets. It will erupt in political life instead.

Our guess is that EMU, far from creating a sexless, tasteless, supranational Europe, would give us excitement aplenty. It would be a Europe where the balance of power in parliaments is held by the populist parties of economic nonsense and the balance of power in the streets of riot-torn capitals is held by jobless, crypto-fascist yobs. That may not seem much different to London after England loses a European championship match. But, given the scale, it means shorting all the EU!

INVESTMENT CONCLUSION

The consensus is dead set against us. Few among our clients think that EMU will do economic good. But all think EMU will happen, and only a very few think it will be postponed - and then for a short, immaterial time. That's because the political will to achieve EMU is awesome.

We maintain our 60% conviction that EMU won't happen on time. If we're right, the key investment strategy is to be short the French franc and French bonds versus the DM and bunds. But at the request of our clients, this report looks at what to do if EMU happens (40% probability). We conclude that if EMU happens, it will have to be a broad church that rapidly includes the high public debt and deficit SCCs.

Then SCC bonds would be the investment to go for, because EMU wipes out their devaluation and default risks. That's not yet fully reflected in current SCC bond yields. SCC currencies are now fairly valued, so there's nothing to be made there.

EMU would destroy one of Europe's key shock absorbers for joblessness and misguided policies - the currency markets. Social pressures will be increased by the deflationary impact of EMU, particularly the SCCs and France. Instead of relieving these pressures through currency volatility, the result will be political instability. That means EMU will eventually blow up (members will leave) and Europe's politics will fragment. That would make nearly all European financial assets and currencies (bar the UK) a short into US and Asian equivalents.