the writing on the wall

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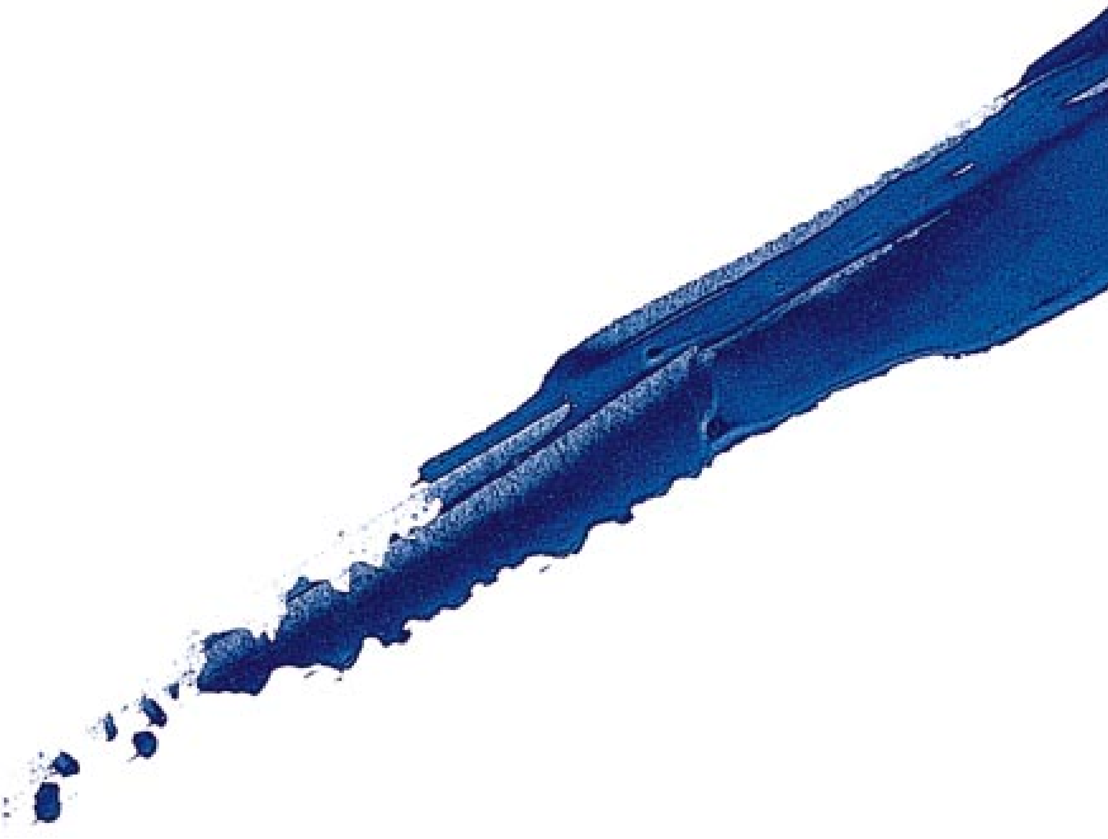


the writing on the wall

A LOOK AT THE FREE-MARKET REVOLUTION

the writing on the wall

As we move towards the new century it is interesting to contemplate the extraordinary changes that the world has experienced; even more tantalising is the prospect of what is to come. Once again, we have included two articles in this year's annual report to highlight some of the changes and their consequences.

Some of the developments we have witnessed in the last fifty years, never mind the whole century, are breathtaking. The most obvious transformation that we in the finance industry have witnessed, is the seeming acceptance of the market pricing system as the solution to coping with the age-old problem of allocating resources. Many have forgotten the endless debate about development economics that was so popular in the 1960s, together with experiments to reverse imbalances through both price and wage controls. Some may also have forgotten the fierce contest between capital and labour which was highlighted by the miners' strike in the early days of the Thatcher Government in the late 1970s. The world's gradual move to greater acceptance of the free market model was accelerated by the demise of the Soviet system. One of Soviet communism's great weaknesses was its inability to cope with rapid change. Poor accountability and the inevitable disarray that develops without a mechanism to reward excellence and discourage incompetence, has taken its toll. The irony of central control is that as we enter the digital age with all the associated accoutrements of the information revolution, it looks more possible than ever to control the problem of supply and demand in a centralised way. This may seem far-fetched but when one studies the logistics that companies like WalMart employ, it is evident that the replenishment cycle starts at the checkout till. The problem remains, however, that price is still necessary as the rationing mechanism.

Today, the call is for free and open competition. This implies the removal of subsidies, government ownership and other factors that may disrupt so-called free competition. Giving additional impetus to the acceptance of the free-market model has been the extraordinarily long business cycle in the *economy of the system's strongest protagonist, the USA. This period of growth has been accompanied by the information revolution and some have linked the two as immutable partners. Broader analysis may suggest that the world is passing through a period of price stability similar to that which was evident in decades (and centuries) past. Mr David Hackett Fischer has written a fascinating book covering this subject, The Great Wave – well worth reading for those seeking a greater insight into economic history. Even with a shorter perspective, one can identify factors that are working in favour of a period of relative price stability and perhaps less turbulent economic cycles.*

We have written before about the removal of barriers (under the auspices of GATT and the World Trade Organisation) which has allowed a freer flow of capital and trade. This has intensified global competition and supported the development of concepts such as international sourcing and benchmarking. The resulting pervasiveness of multinational corporations has affected the position of traditional suppliers. There are many instances where comfortable local suppliers are being challenged to meet international standards in order to keep their market, from car assembly plant contractors to beverage can makers. This pressure for size and global reach has encouraged merger and acquisition activity that makes the experience of the 1920s pale into insignificance. Essentially, the national anti-monopolist bodies have accepted the argument of global competition and become more malleable.

An interesting development that has accompanied the above is the way companies have chosen to reassess their business models. Hitherto highly profitable engineering companies are earning smaller rewards from their traditional fields of excellence and consequently are migrating to providing a broader offering which may include through-life guarantees and maintenance services. This has been the case in the aero engine industry, and we are starting to see companies such as Ford outsourcing segments of the car assembly process to component suppliers while defining its core competence as that of design, branding, and after sales service.

The emergence of the internet has further enlivened the business model debate. Concepts that were previously foreign to the profit motive are now being *accepted in a world where there is almost infinite scalability at almost zero marginal cost. There is the prospect of addressing a vast number of consumers from a single location, and the customer profiling potential of electronic commerce allows, perversely, 'personalised' service.*

The broader concept of stakeholder value has tended in the last fifteen years to be squeezed into a narrow concept of shareholder value, the view being that all stakeholders will benefit to the extent that profitability is optimised. This has given rise to the return of the fashion of stock options that was common in the 1960s in the US, except that the scale today is gargantuan by comparison. Income disparities have widened dramatically in the industrialised world at a time when marginal income tax rates and other progressive taxes have diminished.

Our first article is an edited chapter from the book The Work of Nations, written by Mr Robert Reich, formerly Labour Secretary to President Clinton. Mr Reich explains the origins of the growing disparities in wealth and income in our society. With the rise of global multinational corporations, relatively unskilled labour has lost bargaining power. Highly qualified professionals whose services are less exposed to competition are becoming more prosperous. It is also interesting to note that the position of women has improved (if only in a relative sense) as the well paid, male-dominated heavy industrial jobs are increasingly performed in the developing world.

In his article, Mr George Soros, an adept investor and beneficiary of the free market, argues that the market mechanism is only partially compatible with his vision of the 'open society'. Free-market economics holds up the efficacy of a competitive pricing mechanism as an almost scientific truth. Mr Soros notes that the assumptions made about the free market do not pertain in the real world, and that we must accept our own fallibility and imperfect knowledge if we are to strive toward a free and open society. For those who try to understand the dynamics of markets, this is an enlightening piece.

I hope you enjoy these two articles as much as we have. Generally history would suggest when all is most certain one should look for the discontinuities.

Kerr Neilson Managing Director

why the rich are getting richer and the poor, poorer

ROBERT REICH

Regardless of how your job is officially classified (manufacturing, service, managerial, technical, secretarial, and so on), or the industry in which you work (automotive, steel, computer, advertising, finance, food processing), your real competitive position in the world economy is coming to depend on the function you perform in it. Herein lies the basic reason why incomes are diverging. The fortunes of routine producers are declining. In-person servers are also becoming poorer, although their fates are less clear-cut. But symbolic analysts – who solve, identify, and broker new problems – are, by and large, succeeding in the world economy.

All Americans used to be in roughly the same economic boat. Most rose or fell together, as the corporations in which they were employed, the industries comprising such corporations, and the national economy as a whole became more productive – or languished. But national borders no longer define our economic fates. We are now in different boats, one sinking rapidly, one sinking more slowly, and the third rising steadily.

The boat containing routine producers is sinking rapidly. Recall that by midcentury routine production workers in the United States were paid relatively well. The giant pyramid-like organisations at the core of each major industry coordinated their prices and investments – avoiding the harsh winds of competition and thus maintaining healthy earnings. Some of these earnings, in turn, were reinvested in new plant and equipment (yielding ever-larger-scale economies); another portion went to top managers and investors. But a large and increasing portion went to middle managers and production workers. Work stoppages posed such a threat to high-volume production that organised labour was able to exact an ever-larger premium for its cooperation. And the pattern of wages established within the core corporations influenced the pattern throughout the national economy. Thus the growth of a relatively affluent middle class, able to purchase all the wondrous things produced in high volume by the core corporations.

But, as has been observed, the core is rapidly breaking down into global webs which earn their largest profits from clever problem-solving, identifying, and brokering. As the costs of transporting standard things and of communicating information about them continue to drop, profit margins on high-volume, standardised production are thinning, because there are few barriers to entry. Modern factories and state-of-the-art machinery can be installed almost anywhere on the globe. Routine producers in the United States, then, are in direct competition with millions of routine producers in other nations. Twelve thousand people are added to the world's population every hour, most of whom, eventually, will happily work for a small fraction of the wages of routine producers in America.

The consequence is clearest in older, heavy industries, where high-volume, standardised production continues its ineluctable move to where labour is cheapest and most accessible around the world. Thus, for example, the Maquiladora factories cluttered along the Mexican side of the US border in the sprawling shanty towns of Tijuana, Mexicali, Nogales, Agua Prieta, and Ciudad Juárez – factories owned mostly by Americans, but increasingly by Japanese – in which more than a half million routine producers assemble parts into finished goods to be shipped into the United States.

The search for ever lower wages has not been confined to heavy industry. Routine data processing is equally footloose. Keypunch operators located anywhere around the world can enter data into computers, linked by satellite or transoceanic fibre-optic cable, and take it out again. As the rates charged by satellite networks continue to drop, and as more satellites and fibre-optic cables become available (reducing communication costs still further), routine data processors in the United States find themselves in ever more direct competition with their counterparts abroad, who are often eager to work for far less.

By 1990, keypunch operators in the United States were earning, at most, $6.50 per hour. But keypunch operators throughout the rest of the world were willing to work for a fraction of this. Thus, many potential American data processing jobs were disappearing, and the wages and benefits of the remaining ones were in decline.

By 1990, American Airlines was employing over 1,000 data processors in Barbados and the Dominican Republic to enter names and flight numbers from used airline tickets (flown daily to Barbados from airports around the United States) into a giant computer bank located in Dallas. Chicago publisher RR Donnelley was sending entire manuscripts to Barbados for entry into computers in preparation for printing. The New York Life Insurance Company was dispatching insurance claims to Castleisland, Ireland, where routine producers, guided by simple directions, entered the claims and determined the amounts due, then instantly transmitted the computations back to the United States. (When the firm advertised in Ireland for twenty-five data-processing jobs, it received six hundred applications.) And McGraw-Hill was processing subscription renewal and marketing information for its magazines in nearby Galway. Indeed, literally millions of routine workers around the world were receiving information, converting it into computer-readable form, and then sending it back – at the speed of electronic impulses – whence it came.

This shift of routine production jobs from advanced to developing nations is a great boon to many workers in such nations who otherwise would be jobless or working for much lower wages. These workers, in turn, now have more money with which to purchase symbolic-analytic services from advanced nations (often embedded within all sorts of complex products). The trend is also beneficial to everyone around the world who can now obtain high-volume, standardised products (including information and software) more cheaply than before.

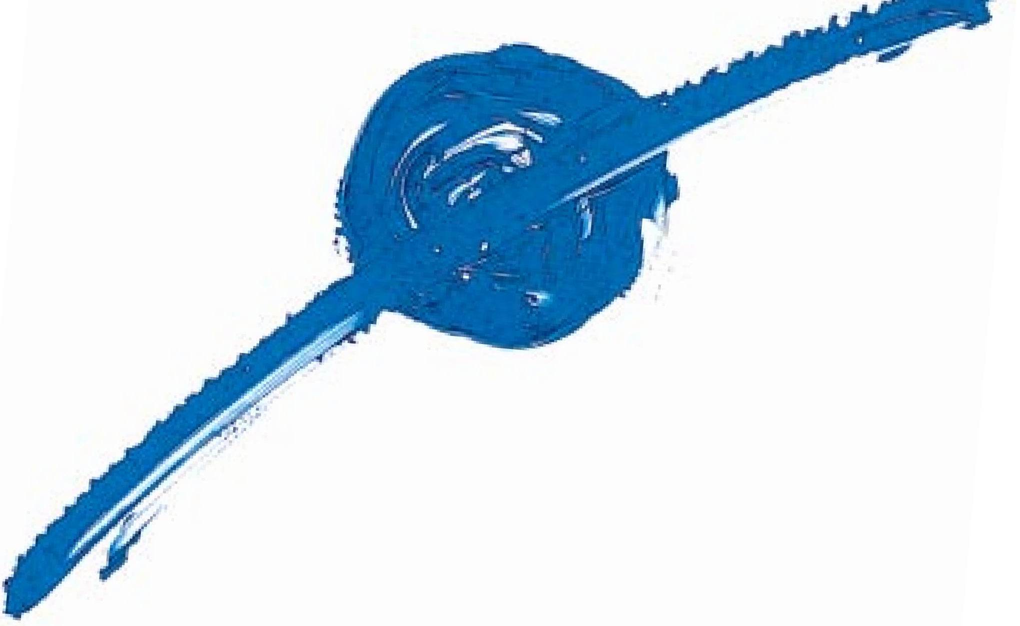
But these benefits do not come without certain costs. In particular the burden is borne by those who no longer have good paying routine production jobs within advanced economies like the United States. Many of these people used to belong to unions or at least benefited from prevailing wage rates established in collective bargaining agreements. But as the old corporate bureaucracies have flattened into global webs, bargaining leverage has been lost. Indeed, the tacit national bargain is no more.

Despite the growth in the number of new jobs in the United States, union membership has withered. In 1960, 35 percent of all nonagricultural workers in America belonged to a union. But by 1980 that portion had fallen to just under a quarter, and by 1989 to about 17 percent. Excluding government employees, union membership was down to 13.4 percent.

Overall, the decline in routine jobs has hurt men more than women. This is because the routine production jobs held by men in high-volume metal-bending manufacturing industries had paid higher wages than the routine production jobs held by women in textiles and data processing. As both sets of jobs have been lost, American women in routine production have gained more equal footing with American men – equally poor footing, that is. This is a major reason why the gender gap between male and female wages began to close during the 1980s.

The second of the three boats, carrying in-person servers, is sinking as well, but somewhat more slowly and unevenly. Most in-person servers are paid at or just slightly above the minimum wage and many work only part-time, with the result that their take-home pay is modest, to say the least. Nor do they typically receive all the benefits (health care, life insurance, disability, and so forth) garnered by routine producers in large manufacturing corporations or by symbolic analysts affiliated with the more affluent threads of global webs. In-person servers are sheltered from the direct effects of global competition and, like everyone else, benefit from access to lower-cost products from around the world. But they are not immune to its indirect effects.

For one thing, in-person servers increasingly compete with former routine production workers, who, no longer able to find well-paying routine production jobs, have few alternatives but to seek in-person service jobs. The Bureau of Labour Statistics estimates that of the 2.8 million manufacturing workers who lost their jobs during the early 1980s, fully one-third were rehired in service jobs paying at least 20 percent less. In-person servers must also compete with high school graduates and dropouts who years before had moved easily into routine production jobs but no longer can. And if demographic predictions about the American work force in the first decades of the twenty-first



century are correct (and they are likely to be, since most of the people who will comprise the work force are already identifiable), most new entrants into the job market will be black or Hispanic men, or women – groups that in years past have possessed relatively weak technical skills. This will result in an even larger number of people crowding into in-person services. Finally, in-person servers will be competing with growing numbers of immigrants, both legal and illegal, for whom in-person services will comprise the most accessible jobs. (It is estimated that between the mid-1980s and the end of the century, about a quarter of all workers entering the American labour force will be immigrants.)

Perhaps the fiercest competition that in-person servers face comes from labour-saving machinery (much of it invented, designed, fabricated, or assembled in other nations, of course). Automated tellers, computerised cashiers, automatic car washes, robotised vending machines, self-service gasoline pumps, and all similar gadgets substitute for the human beings that customers once encountered. Even telephone operators are fast disappearing, as electronic sensors and voice simulators become capable of carrying on conversations that are reasonably intelligent, and always polite. Retail sales workers – among the largest groups of in-person servers – are similarly imperiled. Through personal computers linked to television screens, tomorrow's consumers will be able to buy furniture, appliances, and all sorts of electronic toys from their living rooms – examining the merchandise from all angles, selecting whatever colour, size, special features, and price seem most appealing, and then transmitting the order instantly to warehouses from which the selections will be shipped directly to their homes. So, too, with financial transactions, airline and hotel reservations, rental car agreements, and similar contracts, which will be executed between consumers in their homes and computer banks somewhere else on the globe.

The standard of living of in-person servers also depends, indirectly, on the standard of living of the Americans they serve who are engaged in world commerce. To the extent that these Americans are richly rewarded by the rest of the world for what they contribute, they will have more money to lavish upon in-person services. Here we find the only form of 'trickle-down' economics that has a basis in reality. A waitress in a town whose major factory has just been closed is unlikely to earn a high wage or enjoy much job security; in a swank resort populated by film producers and banking moguls, she is apt to do reasonably well. So, too, with nations. In-person servers in Bangladesh may spend their days performing roughly the same tasks as in-person servers in the United States, but have a far lower standard of living for their efforts. The difference comes in the value that their customers add to the world economy.

Unlike the boats of routine producers and in-person servers, however, the vessel containing America's symbolic analysts is rising. Worldwide demand for their insights is growing as the ease and speed of communicating them steadily increases. Not every symbolic analyst is rising as quickly or as dramatically as every other, of course; symbolic analysts at the low end are barely holding their own in the world economy. But symbolic analysts at the top are in such great demand worldwide that they have difficulty keeping track of all their earnings. Never before in history has opulence on such a scale been gained by people who have earned it, and done so legally.

Among symbolic analysts in the middle range are American scientists and researchers who are busily selling their discoveries to global enterprise webs. They are not limited to American customers. If the strategic brokers in General Motors' headquarters refuse to pay a high price for a new means of making high-strength ceramic engines dreamed up by a team of engineers affiliated with Carnegie-Mellon University in Pittsburgh, the strategic brokers of Honda or Mercedes-Benz are likely to be more than willing.

So, too, with the insights of America's ubiquitous management consultants, which are being sold for large sums to eager entrepreneurs in Europe and Latin America. Also, the insights of America's energy consultants, sold for even larger sums to Arab sheikhs.

Americans who specialise in the gentle art of public relations are in demand by corporations, governments, and politicians in virtually every nation. So, too, are American political consultants, some of whom, at this writing, are advising the Hungarian Socialist Party, the remnant of Hungary's ruling Communists, on how to salvage a few parliamentary seats in the nation's first free election in more than forty years. Also at this writing, a team of American agricultural consultants are advising the managers of a Soviet farm collective employing 1,700 Russians eighty miles outside Moscow. As noted, American investment bankers and lawyers specialising in financial circumnavigations are selling their insights to Asians and Europeans who are eager to discover how to make large amounts of money by moving large amounts of money.

Developing nations, meanwhile, are hiring American civil engineers to advise on building roads and dams. The present thaw in the Cold War will no doubt expand these opportunities.

The most important reason for this expanding world market and increasing global demand for the symbolic and analytic insights of Americans has been the dramatic improvement in worldwide communication and transportation technologies. Designs, instructions, advice, and visual and audio symbols can be communicated more and more rapidly around the globe, with ever-greater precision and at ever-lower cost. Madonna's voice can be transported to billions of listeners, with perfect clarity, on digital compact disks. A new invention emanating from engineers in Battelle's laboratory in Columbus, Ohio, can be sent almost anywhere via modem, in a form that will allow others to examine it in three dimensions through enhanced computer graphics. When face-to-face meetings are still required – and videoconferencing will not suffice – it is relatively easy for designers, consultants, advisers, artists, and executives to board supersonic jets and, in a matter of hours, meet directly with their worldwide clients, customers, audiences, and employees.

With rising demand comes rising compensation. Whether in the form of licensing fees, fees for service, salaries, or shares in final profits, the economic result is much the same. There are also nonpecuniary rewards. One of the best-kept secrets among symbolic analysts is that so many of them enjoy their work. In fact, much of it does not count as work at all, in the traditional sense. The work of routine producers and in-person servers is typically monotonous; it causes muscles to tire or weaken and involves little independence or discretion.

The ‘work’ of symbolic analysts, by contrast, often involves puzzles, experiments, games, a significant amount of chatter, and substantial discretion over what to do next. Few routine producers or in-person servers would ‘work’ if they did not need to earn the money. Many symbolic analysts would ‘work’ even if money were no object.

At midcentury, when America was a national market dominated by core pyramid-shaped corporations, there were constraints on the earnings of people at the highest rungs. First and most obviously, the market for their services was largely limited to the borders of the nation. In addition, whatever conceptual value they might contribute was small relative to the value gleaned from large scale – and it was dependent on large scale for whatever income it was to summon. Most of the problems to be identified and solved had to do with enhancing the efficiency of production and improving the flow of materials, parts, assembly and distribution. Inventors searched for the rare breakthrough revealing an entirely new product to be made in high volume; management consultants, executives and engineers thereafter tried to speed and synchronise its manufacture, to better achieve scale efficiencies; advertisers and marketers sought then to whet the public’s appetite for the standard item that emerged. Since white-collar earnings increased with larger scale, there was considerable incentive to expand the firm; indeed, many of America’s core corporations grew far larger than scale economies would appear to have justified.

By the 1990s, in contrast, the earnings of symbolic analysts were limited neither by the size of the national market nor by the volume of production of the firms with which they were affiliated. The marketplace was worldwide, and conceptual value was high relative to value added from scale efficiencies.

There had been another constraint on high earnings, which also gave way by the 1990s. At midcentury, the compensation awarded to top executives and advisers of the largest of America’s core corporations could not be grossly out of proportion to that of low-level production workers. It would be unseemly for executives who engaged in highly visible rounds of bargaining with labour unions, and who routinely responded to government requests to moderate prices, to take home wages and benefits widely in excess of what other Americans earned. Unless white-collar executives restrained themselves, moreover, blue-collar production workers could not be expected to restrain their own demands for higher wages. Unless both groups exercised restraint, the government could not be expected to forbear from imposing direct controls and regulations.

At the same time, the wages of production workers could not be allowed to sink too low, lest there be insufficient purchasing power in the economy. After all, who would buy all the goods flowing out of American factories if not American workers? This, too, was part of the tacit bargain struck between American managers and their workers.

Recall the oft-repeated corporate platitude of the era about the chief executive's responsibility to carefully weigh and balance the interests of the corporation's disparate stakeholders. Under the stewardship of the corporate statesman, no set of stakeholders – least of all white-collar executives – was to gain a disproportionately large share of the benefits of corporate activity; nor was any stakeholder – especially the average worker – to be left with a share that was disproportionately small. Banal though it was, this idea helped to maintain the legitimacy of the core American corporation in the eyes of most Americans, and to ensure continued economic growth.

But by the 1990s, these informal norms were evaporating, just as (and largely because) the core American corporation was vanishing. The links between top executives and the American production worker were fading: an ever-increasing number of subordinates and contractees were foreign, and a steadily growing number of American routine producers were working for foreign-owned firms. An entire cohort of middle-level managers, who had once been deemed 'white collar', had disappeared; and, increasingly, American executives were exporting their insights to global enterprise webs.

As the American corporation itself became a global web almost indistinguishable from any other, its stakeholders were turning into a large and diffuse group, spread over the world. Such global stakeholders were less visible, and far less noisy, than national stakeholders. And as the American corporation sold its goods and services all over the world, the purchasing power of American workers became far less relevant to its economic survival.

Thus have the inhibitions been removed. The salaries and benefits of America's top executives, and many of their advisers and consultants, have soared to what years before would have been unimaginable heights, even as those of other Americans have declined.

Edited extract from Chapter 17, '*Why the Rich are Getting Richer and the Poor, Poorer*' from The Work of Nations by Robert R. Reich (First Vintage Books Edition, February 1992). Reproduced by permission of Robert R. Reich.

the capitalist threat

GEORGE SOROS

In The Philosophy of History, Hegel discerned a disturbing historical pattern – the crack and fall of civilisations owing to a morbid intensification of their own first principles. Although I have made a fortune in the financial markets, I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the communist but the capitalist threat.

The term 'open society' was coined by Henri Bergson, in his book *The Two Sources of Morality and Religion* (1932), and given greater currency by the Austrian philosopher Karl Popper, in his book *The Open Society and Its Enemies* (1945). Popper showed that totalitarian ideologies like communism and Nazism have a common element: they claim to be in possession of the ultimate truth. Since the ultimate truth is beyond the reach of humankind, these ideologies have to resort to oppression in order to impose their vision on society. Popper juxtaposed with these totalitarian ideologies another view of society, which recognises that nobody has a monopoly on the truth; different people have different views and different interests, and there is a need for institutions that allow them to live together in peace. These institutions protect the rights of citizens and ensure freedom of choice and freedom of speech. Popper called this form of social organisation the 'open society'. Totalitarian ideologies were its enemies.

Written during the Second World War, *The Open Society and Its Enemies* explained what the Western democracies stood for and fought for. The explanation was highly abstract and philosophical, and the term 'open society' never gained wide recognition. Nevertheless, Popper's analysis was penetrating, and when I read it as a student in the late 1940s, having experienced at first hand both Nazi and Communist rule in Hungary, it struck me with the force of revelation.

I was driven to delve deeper into Karl Popper's philosophy, and to ask, Why does nobody have access to the ultimate truth? The answer became clear: We live in the same universe that we are trying to understand, and our perceptions can influence the events in which we participate. If our thoughts belonged to one universe and their subject matter to another, the truth might be within our grasp: we could formulate statements corresponding to the facts, and the facts would serve as reliable criteria for deciding whether the statements were true.

There is a realm where these conditions prevail: natural science. But in other areas of human endeavour the relationship between statements and facts is less clear-cut. In social and political affairs the participants' perceptions help to determine reality. In these situations facts do not necessarily constitute reliable criteria for judging the truth of statements. There is a two-way connection – a feedback mechanism – between thinking and events, which I have called 'reflexivity.' I have used it to develop a theory of history.

Popper showed that fascism and communism had much in common, even though one constituted the extreme right and the other the extreme left, because both relied on the power of the state to repress the freedom of the individual. I want to extend his argument. I contend that an open society may also be threatened from the opposite direction – from excessive individualism. Too much competition and too little cooperation can cause intolerable inequities and instability.

Insofar as there is a dominant belief in our society today, it is a belief in the magic of the marketplace. The doctrine of laissez-faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest. Unless it is tempered by the recognition of a common interest that ought to take precedence over particular interests, our present system – which, however imperfect, qualifies as an open society – is liable to break down.

I want to emphasise, however, that I am not putting laissez-faire capitalism in the same category as Nazism or communism. Totalitarian ideologies deliberately seek to destroy the open society; laissez-faire policies may endanger it, but only inadvertently. Friedrich Hayek, one of the apostles of laissez-faire, was also a passionate proponent of the open society. Nevertheless, because communism and even socialism have been thoroughly discredited, I consider the threat from the laissez-faire side more potent today than the threat from totalitarian ideologies. We are enjoying a truly global market economy in which goods, services, capital, and even people move around quite freely, but we fail to recognise the need to sustain the values and institutions of an open society.

The present situation is comparable to that at the turn of the past century. It was a golden age of capitalism, characterised by the principle of laissez-faire; so is the present. The earlier period was in some ways more stable. There was an imperial power, England, that was prepared to dispatch gunboats to faraway places because as the main beneficiary of the system it had a vested interest in maintaining that system. Today the United States does not want to be the policeman of the world. The earlier period had the gold standard; today the main currencies float and crush against each other like continental plates. Yet the free-market regime that prevailed a hundred years ago was destroyed by the First World War. Totalitarian ideologies came to the fore, and by the end of the Second World War there was practically no movement of capital between countries. How much more likely the present regime is to break down unless we learn from experience!

Although laissez-faire doctrines do not contradict the principles of the open society the way Marxism-Leninism or Nazi ideas of racial purity did, all these doctrines have an important feature in common: they all try to justify their claim to ultimate truth with an appeal to science. In the case of totalitarian doctrines, that appeal could easily be dismissed. One of Popper's accomplishments was to show that a theory like Marxism does not qualify as science. In the case of laissez-faire the claim is more difficult to dispute, because it is based on economic theory, and economics is the most reputable of the social sciences. One cannot simply equate market economics with Marxist economics.

Yet laissez-faire ideology, I contend, is just as much a perversion of supposedly scientific verities as Marxism-Leninism is.

The main scientific underpinning of the laissez-faire ideology is the theory that free and competitive markets bring supply and demand into equilibrium and thereby ensure the best allocation of resources. This is widely accepted as an eternal verity, and in a sense it is one. Economic theory is an axiomatic system: as long as the basic assumptions hold, the conclusions follow. But when we examine the assumptions closely, we find that they do not apply to the real world. As originally formulated, the theory of perfect competition – of the natural equilibrium of supply and demand – assumed perfect knowledge, homogeneous and easily divisible products, and a large enough number of market participants that no single participant could influence the market price. The assumption of perfect knowledge proved unsustainable, so it was replaced by an ingenious device. Supply and demand were taken as independently given. This condition was presented as a methodological requirement rather than an assumption. It was argued that economic theory studies the relationship between supply and demand; therefore it must take both of them as given.

As I have shown elsewhere, the condition that supply and demand are independently given cannot be reconciled with reality, at least as far as the financial markets are concerned – and financial markets play a crucial role in the allocation of resources. Buyers and sellers in financial markets seek to discount a future that depends on their own decisions. The shape of the supply and demand curves cannot be taken as given because both of them incorporate expectations about events that are shaped by those expectations. There is a two-way feedback mechanism between the market participants' thinking and the situation they think about – 'reflexivity.' It accounts for both the imperfect understanding of the participants (recognition of which is the basis of the concept of the open society) and the indeterminacy of the process in which they participate.

If the supply and demand curves are not independently given, how are market prices determined? If we look at the behaviour of financial markets, we find that instead of tending toward equilibrium, prices continue to fluctuate relative to the expectations of buyers and sellers. There are prolonged periods when prices are moving away from any theoretical equilibrium. Even if they eventually show a tendency to return, the equilibrium is not the same as it would have been without the intervening period. Yet the concept of equilibrium endures. It is easy to see why: without it, economics could not say how prices are determined.

In the absence of equilibrium, the contention that free markets lead to the optimum allocation of resources loses its justification. The supposedly scientific theory that has been used to validate it turns out to be an axiomatic structure whose conclusions are contained in its assumptions and are not necessarily supported by the empirical evidence. The resemblance to Marxism, which also claimed scientific status for its tenets, is too close for comfort.

I do not mean to imply that economic theory has deliberately distorted reality for political purposes. But in trying to imitate the accomplishments (and win for itself the prestige) of natural science, economic theory attempted the impossible. The theories of social science relate to their subject matter in a reflexive manner. That is to say, they can influence events in a way that the theories of natural science cannot. Heisenberg's famous uncertainty principle implies that the act of observation may interfere with the behaviour of quantum particles; but it is the observation that creates the effect, not the uncertainty principle itself. In the social sphere, theories have the capacity to alter the subject matter to which they relate. Economic theory has deliberately excluded reflexivity from consideration. In doing so, it has distorted its subject matter and laid itself open to exploitation by laissez-faire ideology.

What allows economic theory to be converted into an ideology hostile to the open society is the assumption of perfect knowledge – at first openly stated and then disguised in the form of a methodological device. There is a powerful case for the market mechanism, but it is not that markets are perfect; it is that in a world dominated by imperfect understanding, markets provide an efficient feedback mechanism for evaluating the results of one's decisions and correcting mistakes. Whatever its form, the assertion of perfect knowledge stands in contradiction to the concept of the open society (which recognises that our understanding of our situation is inherently imperfect).

Economic theory has managed to create an artificial world in which the participants' preferences and the opportunities confronting participants are independent of each other, and prices tend toward an equilibrium that brings the two forces into balance. But in financial markets prices are not merely the passive reflection of independently given demand and supply; they also play an active role in shaping those preferences and opportunities. This reflexive interaction renders financial markets inherently unstable. Laissez-faire ideology denies the instability and opposes any form of government intervention aimed at preserving stability. History has shown that financial markets do break down, causing economic depression and social unrest. The breakdowns have led to the evolution of central banking and other forms of regulation. Laissez-faire ideologues like to argue that the breakdowns were caused by faulty regulations, not by unstable markets. There is some validity in their argument, because if our understanding is inherently imperfect, regulations are bound to be defective. But their argument rings hollow, because it fails to explain why the regulations were imposed in the first place. It sidesteps the issue by using a different argument, which goes like this: since regulations are faulty, unregulated markets are perfect.

The argument rests on the assumption of perfect knowledge: if a solution is wrong, its opposite must be right. In the absence of perfect knowledge, however, both free markets and regulations are flawed. Stability can be preserved only if a deliberate effort is made to preserve it. Even then breakdowns will occur, because public policy is often faulty. If they are severe enough, breakdowns may give rise to totalitarian regimes.

Instability extends well beyond financial markets: it affects the values that guide people in their actions. Economic theory takes values as given. At the time economic theory was born, in the age of Adam Smith, David Ricardo, and Alfred Marshall, this was a reasonable assumption, because people did, in fact, have firmly established values. Adam Smith himself combined a moral philosophy with his economic theory. Beneath the individual preferences that found expression in market behaviour, people were guided by a set of moral principles that found expression in behaviour outside the scope of the market mechanism. Deeply rooted in tradition, religion, and culture, these principles were not necessarily rational in the sense of representing conscious choices among available alternatives. Indeed, they often could not hold their own when alternatives became available. Market values served to undermine traditional values.

There has been an ongoing conflict between market values and other, more traditional value systems, which has aroused strong passions and antagonisms. As the market mechanism has extended its sway, the fiction that people act on the basis of a given set of nonmarket values has become progressively more difficult to maintain. Advertising, marketing, even packaging, aim at shaping people's preferences rather than, as laissez-faire theory holds, merely

responding to them. Unsure of what they stand for, people increasingly rely on money as the criterion of value. What is more expensive is considered better. The value of a work of art can be judged by the price it fetches. People deserve respect and admiration because they are rich. What used to be a medium of exchange has usurped the place of fundamental values, reversing the relationship postulated by economic theory. What used to be professions have turned into businesses. The cult of success has replaced a belief in principles. Society has lost its anchor.

It is easier to identify the enemies of the open society than to give the concept a positive meaning. Instead of there being a dichotomy between open and closed, I see the open society as occupying a middle ground, where the rights of the individual are safeguarded but where there are some shared values that hold society together. This middle ground is threatened from all sides. At one extreme, communist and nationalist doctrines would lead to state domination. At the other extreme, laissez-faire capitalism would lead to great instability and eventual breakdown. There are other variants. Lee Kuan Yew, of Singapore, proposes a so-called Asian model that combines a market economy with a repressive state. In many parts of the world control of the state is so closely associated with the creation of private wealth that one might speak of robber capitalism, or the 'gangster state,' as a new threat to the open society.

I envisage the open society as a society open to improvement. We start with the recognition of our own fallibility, which extends not only to our mental constructs but also to our institutions. What is imperfect can be improved, by a process of trial and error. The open society not only allows this process but actually encourages it, by insisting on freedom of expression and protecting dissent. The open society offers a vista of limitless progress. In this respect it has an affinity with the scientific method. But science has at its disposal objective criteria – namely the facts by which the process may be judged. Unfortunately, in human affairs the facts do not provide reliable criteria of truth, yet we need some generally agreed-upon standards by which the process of trial and error can be judged. All cultures and religions offer such standards; the open society cannot do without them. The innovation in an open society is that whereas most cultures and religions regard their own values as absolute, an open society, which is aware of many cultures and religions, must regard its own shared values as a matter of debate and choice. To make the debate possible, there must be general agreement on at least one point: that the open society is a desirable form of social organisation. People must be free to think and act, subject only to limits imposed by the common interests. Where the limits are must also be determined by trial and error.

Historically, beliefs have served to justify specific rules of conduct. Fallibility ought to foster a different attitude. Beliefs ought to serve to shape our lives, not to make us abide by a given set of rules. If we recognise that our beliefs are expressions of our choices, not of ultimate truth, we are more likely to tolerate other beliefs and to revise our own in the light of our experiences. But that is not how most people treat their beliefs. They tend to identify their beliefs with ultimate truth. Indeed, that identification often serves to define their own identity. If their experience of living in an open society obliges them to give up their claim to the ultimate truth, they feel a sense of loss.

If the idea of our fallibility is so hard to take, what makes it appealing? The most powerful argument in its favour is to be found in the results it produces. Open societies tend to be more prosperous, more innovative, more stimulating, than closed ones. But there is a danger in proposing success as the sole basis for holding a belief, because if my theory of reflexivity is valid, being successful is not identical with being right. In natural science, theories have to be right (in the sense that the predictions and explanations they produce correspond to the facts) for them to work (in the sense of producing useful predictions and explanations). But in the social sphere what is effective is not necessarily identical with what is right, because of the reflexive connection between thinking and reality. As I hinted earlier, the cult of success can become a source of instability in an open society, because it can undermine our sense of right and wrong. That is what is happening in our society today. Our sense of right and wrong is endangered by our preoccupation with success, as measured by money. Anything goes, as long as you can get away with it.

If success were the only criterion, the open society would lose out against totalitarian ideologies – as indeed it did on many occasions. It is much easier to argue for my own interest than to go through the whole rigmarole of abstract reasoning from fallibility to the concept of the open society.

I believe in the open society because it allows us to develop our potential better than a social system that claims to be in possession of ultimate truth. Accepting the unattainable character of truth offers a better prospect for freedom and prosperity than denying it. But I recognise a problem here: I am sufficiently committed to the pursuit of truth to find the case for the open society convincing, but I am not sure that other people will share my point of view. Given the reflexive connection between thinking and reality, truth is not indispensable for success. It may be possible to attain specific objectives by twisting or denying the truth, and people may be more interested in attaining their specific objectives than in attaining the truth. In the ultimate analysis a belief in the open society is a matter of choice, not of logical necessity.

That is not all. Even if the concept of the open society were universally accepted, that would not be sufficient to ensure that freedom and prosperity would prevail. The open society merely provides a framework within which different views about social and political issues can be reconciled; it does not offer a firm view on social goals. If it did, it would not be an open society. This means that people must hold other beliefs in addition to their belief in the open society.

It can be seen that the concept of the open society is a seemingly inexhaustible source of difficulties. That is to be expected. After all, the open society is based on the recognition of our fallibility. Indeed, it stands to reason that our ideal of the open society is unattainable. To have a blueprint for it would be self-contradictory. That does not mean that we should not strive toward it. In science also, ultimate truth is unattainable. Yet look at the progress we have made in pursuing it. Similarly, the open society can be approximated to a greater or lesser extent.

To derive a political and social agenda from a philosophical, epistemological argument seems like a hopeless undertaking. Yet it can be done. There is historical precedent. The Enlightenment was a celebration of the power of reason, and it provided the inspiration for the Declaration of Independence and the Bill of Rights. The belief in reason was carried to excess in the French Revolution, with unpleasant side effects; nevertheless, it was the beginning of modernity. We have now had 200 years of experience with the Age of Reason, and as reasonable people we ought to recognise that reason has its limitations. The time is ripe for developing a conceptual framework based on our fallibility. Where reason has failed, fallibility may yet succeed.

PLATINUM CAPITAL LIMITED

ACN 063 975 431

1999 annual report

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chairman's report

Investment Performance The Net Asset Value of Platinum Capital grew by 1.31% last year after allowing for all tax liabilities, both realised and unrealised. On a pre-tax basis the figure was 4.96%.

The table below sets out the performance of Platinum Capital in each of the five years of its operation and compares these figures to the Morgan Stanley Capital World Accumulation (Net Return) Index in $A (MSCI), which is often used as a benchmark for the performance of international funds.

The 1999 year was a difficult and turbulent year for international investors. The MSCI, which is a pre-tax measurement, was up 8.21% compared to Platinum Capital's 4.96%. The simple reason for this divergence is the heavy weighting of the MSCI in US equity markets where Platinum Capital has been underweight or net short.

Platinum achieved a compound rate of return of 14.5% over the five years for a total cumulative return of 96.8%. The MSCI achieved a compound rate of 19.1% and a cumulative return of 139.5% over the same period. It is disappointing to have underperformed the MSCI over that period, a divergence almost entirely due to very different views on US equity markets. The overall returns for Platinum Capital are, however, within the reasonable range for returns on equity investment over the longer term. Over this period a total of 29 cents per share in fully franked dividends has been paid out to shareholders.

It remains our goal to be disciplined value-investors in the belief that this will deliver the best returns for shareholders.

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

	94/95	95/96	96/97	97/98	98/99	5 YEAR CUMULATIVE	ANNUALISED OVER 5 YEARS
PCL	13.0	12.2	15.9	20.5	5.0	96.8	14.5 p.a.
MSCI	14.1	6.7	28.5	41.5	8.2	139.5	19.1 p.a.

Share Price The share price continues, in common with many other investment companies, to trade below the underlying value of the company. This discount has been narrower over the last year, being typically in the range of 10-15%.

As a result, we purchased only 241,645 shares in on-market buy-back offers over the year. The company currently has in operation an on-market buy-back which will terminate on 31 December 1999. It is our intention to renew this offer after that date. In past years we have sought shareholders' approval to buy up to

20% of the company's shares in any one year. It now appears that the purchase of up to 10% in a year allowed under the Corporations Law is sufficient and we will not be seeking any special approvals at the Annual General Meeting.

The Constitution provides that every five years, a motion to wind up the company must be put to shareholders if the average share price for the last three months of the five year period is equivalent to a discount of greater than 15% from the Net Asset Value of the company. This period for the first five years finished on 23 July 1999. The average discount for the three month period was 12.39%, consequently no motion on this issue will be put to the Annual General Meeting.

Dividends The company's dividend policy is to make regular dividends at a level that can be built up over time and to supplement them with a further amount to pass on accumulated franking credits.

The total of these franking credits at 30 June 1999 was 21.7 cents per share. In addition, if all unrealised profits were to be crystallised (and this is the basis on which the NAV figure is calculated) a further 6.7 cents in franking credits would result.

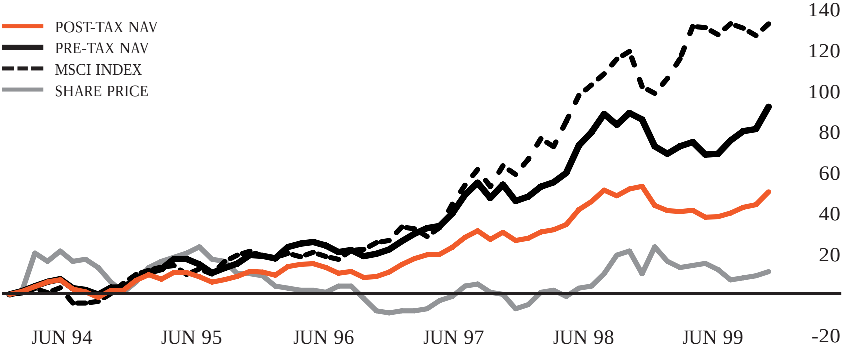
In February this year a dividend of 4 cents per share was paid. Directors are recommending a final dividend of 6 cents per share for a total of 10 cents per share for the year (a total of 10 cents per share was paid for 1998).

It is the Directors' intention to try to maintain these dividend rates if market conditions permit so that franking credits can be passed on to shareholders. The resulting yield may help the share price to trade at closer to NAV.

Outlook for 1999-2000 The Manager in its report presents its outlook for the coming year in some detail. Its comment, that it 'can see very little standing in the way of stock markets continuing to rise', sums up both the opportunities and the dangers of the next year. While the outlook is more positive than 12 months ago, a cautious and considered approach to investment selection is still warranted.

Michael Darling Chairman

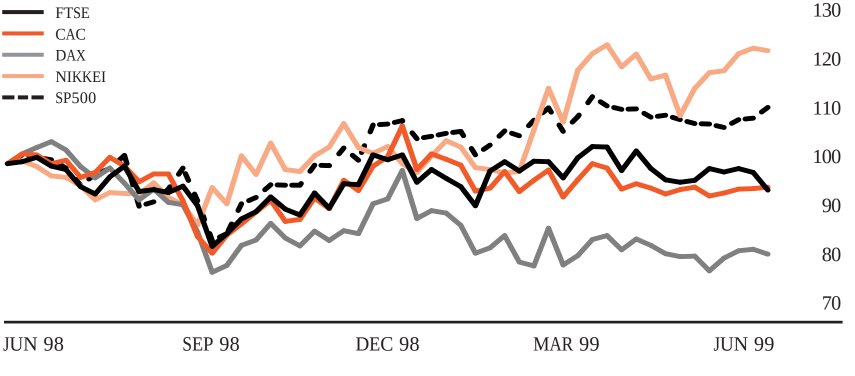
PCL NAV (PRE & POST-TAX), SHARE PRICE VS MSCI INDEX (CUMULATIVE RETURN) %



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

30 APRIL 1999	31 MAY 1999	30 JUNE 1999
114.09 cps	115.18 cps	120.28 cps

COMPARISON OF GLOBAL MARKET INDICES (A$) (1 JULY 1998 – 30 JUNE 1999)



Retrospective The accompanying chart highlights the roller-coaster year that was 1998/99. As we remember well, just as investors had come to understand that Asia could cope with its debt problems, under the auspices of the International Monetary Fund (IMF), Russia effectively defaulted on its debts. The resulting chaos, which included the virtual paralysis of the debt markets and the near demise of one particularly large hedge fund (Long Term Capital Management), with attendant losses to those involved, caused renewed investor nervousness. Fortunately, the US Federal Reserve Board acted with alacrity, dropping the cost of money and arranging a lifeboat operation of leading banks for LTCM in a manner similar to earlier episodes such as those involving the Bank of England in the early seventies.

As far as Platinum Capital was concerned, having long been concerned about the levels of debt in the US economy, the misfortunes of LTCM reinforced our view that the system was very highly leveraged. Further, the need for a bail-out added to our concerns, particularly in the light of earlier stern lectures about *crony capitalism* that had been directed at the leaders of the troubled economy's of Asia. Lastly, we believed that the strengthening of the Japanese Yen was highly damaging to that country's prospects of recovery and, by extension, unhelpful for Asia.

None of this will deepen your regard for our market-timing skills which were, perhaps, blunted by a predilection for value and our stubborn refusal to run an unhedged portfolio. Even so, we offer you cause for optimism. At a time when events looked bleak, our stock-picking skills came to the fore and we added to our holdings of Japanese and Korean shares while maintaining the protection we had in place before the markets' dislocation. These purchases have served well and against a position where the company could have lost value during the year, we achieved a small increase of approximately 5%, against an 8.2% rise in $A terms, of the Morgan Stanley Capital International Index.

To make room for these new holdings in Asian markets, we gradually reduced the proportion of assets employed in Euroland, selling holdings completely or whittling down the amount held in individual investments. In view of our reservations about the prospects of a general recovery in the north eastern Asian economies, our investments were highly selective, concentrating on companies engaged in the information technology (IT) and telecommunications industries with the likes of NTT, Sony, Samsung Electronics and Softbank – which we believe will grow almost regardless of prevailing general economic conditions.

Our market-timing actions with currencies were on balance, profitable. We started adding to the Australian dollar hedge as the currency moved past 60 cents to the $US, and traded the Yen with some success. The weakening of the Euro largely eluded us however and we have been only partially hedged against the decline of this currency as we had shared the view that it was likely to be strong versus the US dollar.

Portfolio Strategy

DISPOSITION OF ASSETS

REGION	30 JUNE 1999	30 JUNE 1998
Japan	40.7%	25.8%
Western Europe	32.7%	45.7%
Other Asia	8.0%	2.7%
North America	6.8%	8.3%
Australia	1.9%	2.1%
South America	0.9%	3.8%
Russia and Eastern Europe	0.3%	0.4%
Cash	8.7%	11.2%

TOP TEN HOLDINGS AS AT 30 JUNE 1999

INDUSTRY	STOCK	COUNTRY	% HOLDING
DDI Corporation	Japan	Mobile Telephony	3.6
Lotte Confectionery	Korea	Food	2.9
Sony	Japan	Electronics/Entertainment	2.9
NTT Mobile	Japan	Mobile Telephony	2.7
Alcatel Alsthom	France	Telecom equipment	2.6
Siemens	Germany	Electrical Engineering	2.5
Mikuni Coca Cola	Japan	Bottler	2.5
Korea Telecom	Korea	Telecoms	2.5
Suzuken	Japan	Pharmaceutical wholesaling	2.5
NTT	Japan	Telecoms	2.3
Total			27.0

Commentary

i Japan The economic figures coming out of Japan are mixed and the information gathered from our recent visits to a broad range of Japanese companies suggests that the consumer is still very cautious. We take comfort, however, from the improved trade figures with the rest of Asia and from recent optimistic reports by US technology companies trading in Japan. The official figures, the Tankan survey, showed an improvement in business confidence although the intention to cut capital spending remains in place. The explanation for our large position in Japan remains unchanged. The country has in the past been afflicted with too little respect for the cost of capital. With its banks in disarray and globalisation requiring the adoption of more open and less interventionist policies, companies are now having to change the employment practices that have prevailed since 1940. For more on this subject we refer you to the article in the company's 1997 annual report. This is important as it will lead to capital winning a larger share of National Product at the expense of labour. We therefore anticipate a situation where profits lift even in the face of a dull economy. In addition, with an economy this size, (US$5 trillion), there will be some highly vibrant areas as Japan catches up on IT, deregulation and outsourcing. Further, the technical aspects of the stock market are most compelling: the population has an unfavourable age profile and yet pension funds are underfunded and invested principally in bonds and cash. There is a clear need for these funds to reweight their portfolios towards riskier assets if they are going to have any hope of meeting their long term obligations. Additionally, private investors have a mere 11% of their financial assets invested in equities and in the recent run-up of the Nikkei, they, like the institutions, have been selling to foreigners.

ii Other Asia The renewed economic expansion that became evident at the beginning of this calendar year has broadened in some areas, particularly exports. In Korea, Singapore and Taiwan, industrial production is up over 10% on a year ago with Korea leading the field with an advance in excess of 20% in May. Intra-Asian trade is tending to bolster the laggards and it is likely that Thailand and Malaysia will be growing in the second half of 1999 which could lead to production across Asia, excluding Japan, rising by around 10% in the latter half of this year. Helping these economies has been the inward flood of foreign capital which has had the twofold benefit of replacing debt with equity and also causing their currencies to appreciate. This, in turn, has allowed their governments to intervene in the foreign exchanges thereby adding to liquidity and causing further falls in interest rates. Ironically, the absence of western style insolvency laws or, in other cases, the reluctance by banks to call-in the assets behind non-performing loans, has allowed many entrepreneurs to leapfrog their way back into solvency. Under normal circumstances these businesses would have closed but the informal structure allowed them to continue trading even though technically insolvent. As interest rates came down and with the benefit of highly competitive exchange rates they are now flourishing though owing the banks many favours. The last piece of the puzzle has fallen into place with some stock markets rising to levels above those before the crisis, which reinforces balance sheets.

iii Latin America Just as Asia has surprised professional forecasters with its resilience, even in the face of a bankrupt banking system, so Latin America has surprised with its remarkably low inflation in the face of currency devaluations.

However, without the strong savings culture that pervades Asia and in light of their exposure to commodities, these countries have not responded with the same *élan.* Argentina in particular has been hobbled by having a currency linked to the US dollar.

iv Europe An element of patchiness remains in the economies of Europe which are sensitive to capital spending such as Germany and Italy. However, with the strength of the small European economies and the prospect for improving exports, it is likely that Europe will finish the year strongly. Evidence of a more friendly attitude towards business was shown in Germany with the passing by the Centre-left coalition of a tax reform bill which will reduce corporate taxes to 35% in 2001. However, legislators continue to drag their feet on important but sensitive reforms such as pensions.

v USA It is important to recognise the role that debt has played in bolstering activity in the strongest economy of all, the US. In the 18 months since Mr Greenspan's celebrated enunciation on market exuberance, debt has risen by US$3.3 trillion or 40% of GNP. House owners, who constitute 66% of households, have taken full advantage of falling interest rates to do two things. They have rolled-down their mortgages into lower rates, mostly on fixed terms, and they have added to their indebtedness; they have drawn out an average of US$15,000 per household for use elsewhere. This is a significant sum in relation to median household pre-tax income of US$37,000 per annum. Personal debt now stands at US$5.6 trillion of which US$4.2 trillion is mortgage debt. The non-mortgage obligations will be sensitive to further rises in interest rates while existing mortgagees will only typically face rising rates when they wish to buy a new home – normal occupancy is for seven years.

The long duration and steadiness of the present phase of economic expansion have done wonders to inject assurance across all strata of consumers such that the index of consumer confidence is now at a thirty year high. This goes a long way to explain retail sales growing at close to 6% versus income growth of 3.5%, pushing the official measure of the savings rate to minus 1%. With this in mind, we were puzzled by the Fed's meek measure of restraint of only one quarter of a percent rate hike in the Federal Funds rate in June and believe it is going to be a game of catch-up through the rest of the year. The Fed is evidently looking for more concrete evidence of price inflation and perhaps it still has an eye on the precarious situation of some overseas economies.

We believe there are very strong reinforcing elements within the US economy such that the interest rate medicine that is eventually administered will need to be a lot stronger than many presently contend. Hence the risk is that bond yields will peak at much higher levels than investors presently envisage. This will help support the US dollar but the sheer size of the trade deficit makes the dollar vulnerable to any adverse change in sentiment towards US financial assets.

Outlook In the short term and with eyes closed to valuations, one can see very little standing in the way of stock markets continuing to rise. The central banks, led by Japan's, continue to feed liquidity into the system. Corporate activity continues to absorb outstanding shares at a faster rate than new stock is being issued. While economic expansion will broaden in Europe and Asia, it seems unlikely to grow at a pace that will threaten relative price stability or, indeed, fully absorb the pool of cheap funds. Equity markets will respond with enthusiasm to an environment of positive earnings surprises though rising interest rates should detract from the valuations of high growth companies. In most markets, there is an absence of attractive alternative investments and only in the US and UK, among the major markets, are we seeing much leakage of funds into property. While the Japanese market has run hard in anticipation of better things, we do not believe any retracement will be particularly harsh in the context of a continuing flow of positive news and the need for domestic savings to seek higher rewards.

Despite all the above, we nonetheless intend to maintain the short position against the US market. Exact timing is immensely difficult but it is virtually certain that, at some stage, investment principles will assert themselves. It is clear that at current levels, valuations on Wall Street are highly stretched. It is also the case that the US economy is in a much more advanced phase of its economic cycle than virtually any other, which supports our belief that some time relatively soon, Wall Street will come under pressure from rising interest rates. It may be true that any sharp sell-off will temporarily be seen as a buying opportunity by the now well-trained public. Following each recent setback, the market has been characterised by a new emerging component, be it information technology or the internet, that has taken the index to yet higher levels. Obviously we cannot know that there will not be other large engines to drive the index higher, but as other economies improve there will be growing competition in terms of opportunities and certainly a significant absorption of the liquidity, which has been such an important driver of all markets.

platinum capital stock stories

With all the excitement about the internet and e-commerce our shareholders must wonder what we're doing about 'getting a share of the action'. The problem is to identify which are truly durable businesses versus ones that start well only to fizzle out on account of the e-road taking an unexpected turn. Having looked at a wide range of offerings we have concluded that the most attractive way to pursue the inevitable growth of e-commerce is to invest in companies that are not directly in the spotlight but yet will play a significant role in this emergent industry.

Ericsson *Sweden* A company we have long followed found itself unusually friendless a few months ago. The shares of the giant telecoms equipment manufacturer Ericsson experienced two years of virtual hibernation as investors expressed concern about its relatively poor showing in mobile handset model releases (mobile phones) and continuing losses in its traditional business of telephone switches (exchanges). As is usually the case, the market was right in having reservations, particularly as newcomers such as Cisco were completely changing the rules by offering 'routers' which in the internet protocol (IP) world all but obviate the need for traditional exchange equipment. Further, the street's blue-eyed boy, Nokia, had gained a lead over Ericsson in the highly profitable and fast-growing arena of mobile handsets. Adding to the discomfort was concern about the company's exposure to big markets that were caught up in a credit crunch, in particular China and Brazil.

Our assessment is that these were purely transient matters and did not detract from Ericsson's core position in the emerging scene of mobile internet access. There is a lot written about the diffusion of personal computers (PCs) and availability of bandwidth but already in the advanced markets for mobile telephony, such as Finland and Sweden, the volume of data is exceeding that of voice. Before entering that domain, let's examine what Ericsson has to offer. Firstly, it is by far the world's largest provider of wireless infrastructure, the base stations and network management software which are the heart and soul of the network, with more sales than its three top competitors, Lucent, Motorola and Nortel, combined. Even more importantly, unlike these competitors it can offer the full range of standards, GSM, TDMA and CDMA. Secondly, it is number two to Nokia in the supply of mobile phones and is likely to ship about 33 million units this year, some 14% of the world market. The profitability of the handset division should benefit from the release of several new high performance models in the second half of 1999. The business that has been causing problems is that of the traditional wireline exchanges. Here, too, the company is a global leader with an installed base of 105 million lines and is presently downsizing the business, a task made necessary by the fact that as these facilities become more sophisticated they rely on more embedded software to the extent that Ericsson's latest AXE switch occupies one-tenth of the space of its predecessor.

The growth in mobile telephony is truly colossal: from a base of about 300 million users at the beginning of 1999 the market is likely to expand to 1,200 million users by 2003 with the peak in *growth rate* of new subscribers only expected to be reached in 2002 at 200 million per annum. For those having concerns about our optimism, spend a moment on a street corner observing passers-by. Australian usage is now 30% of the population while in Finland it is 60%. Crucially, the US market is just coming alive with penetration at 28% and climbing fast. The spend on infrastructure is, therefore, likely to grow at over 20% per annum over the next four years.

The mobile phone market is equally interesting as users upgrade to take advantage of smaller phones or new features and standard changes from analogue to digital. Half of this year's sales, perhaps 120 million phones are expected to come from replacement demand. The problem one can envisage is that the very evident scale of demand will encourage the entrance of new suppliers. This will be exacerbated by the convergence of standards which sees the Asian suppliers, Panasonic and Samsung, joining the fray significantly this year. Handset prices have been falling by around 20% per annum and are expected to average US$196 in 1999. Ericsson's strength in infrastructure rather than phones, compared to its principal rival Nokia, sits well with us on this account. Nokia, though, has stayed at the top end of the market and, by adding new features and by clever manufacturing and marketing, has continued to earn high margins even as prices have fallen.

All this points to Ericsson achieving sales growth of around 20% per annum for several years. Profits could even do better as the traditional wireline switching business returns to profit and the US-based CDMA business expands. The most exciting part of all though, is the build-up in the use of mobile data transmission. In a digital age all information, speech and images can be converted into ones and zeros. Hence data can mean sending a 'movie' to a phone or laptop PC or, alternatively, a salesman can interrogate the company's databank remotely, using a hand-held device, while in the field. Kyocera has already released a mobile phone with a built-in video camera plus display for those who like to chat and gaze! The world of fully mobile multi-media is right upon us. Ericsson is at the forefront of this aspect of e-commerce and, just as the use of mobile phones has astounded some of us, so too will mobile commerce. The Japanese mobile operator NTT DoCoMo will be the first to roll-out the new wide-band CDMA standard in 2001, which will allow full video transmission to a mobile terminal at two megabytes per second. In the meantime, operators everywhere are beginning to introduce equipment upgrades which will allow mobile users to receive and transmit data at high speed.

Unlike some areas of the internet, this roadmap is fairly clear and Ericsson's place in the market reasonably well defined. Once the present restructuring problems are out of the way, the company is likely to resume its trend growth rate of the last fifteen years of about 15% per annum.

Japanese Telecom Industry It is no secret that the global telecommunications industry is experiencing boom times driven by the twin phenomena of rising mobile phone usage and surging data transmission. In a world of patchy growth, this industry is growing at four times that of GDP and this has caught the imagination of investors who have clambered to buy telecom carriers. Rather like the railways in the nineteenth century, there seems no end to the potential of these companies as widening bandwidth facilitates video conferencing and as local access lines change to fibre optic cable or clever electronics allow traditional copper wire to carry sufficient pulses to deliver a full feature video to one's home. (Normal voice requires transmission speeds of only 6,000-8,000 bits per second (bps) whereas a video would need up to 300 times that speed.)

When one looks at the Japanese telecoms market, the same trends are apparent but we think it is potentially a much more interesting story.

NTT has its genesis as a government department, that of the Ministry of Post and Telegraphs in much the same mould as Telstra, British Telecom and Deutsche Telecom. Though the market is being deregulated and competition is showing some signs of increasing, it finds itself in an even more privileged position than the incumbent in any other country. It is a truly enormous network with 62.5 million local access lines of which 4.6 million are high capacity ISDN lines. Also, through its mobile subsidiary, DoCoMo, there are 26 million mobile phone subscribers, a 57% market share, which places it in an unusually privileged position with suppliers. Like its European peer group, which is engineering-led, it maintains a strong commitment to R&D and employs no fewer than 9,000 people researching leading edge technologies such as wide-band CDMA. This commitment will result in Japan implementing this new mobile world standard, perhaps two years ahead of the Europeans. The same technical bias and low priority on profitability has led to a history of massive capital spending that has put it in a very strong position in the so-called local loop (the wiring from the exchange to the home) and unlike any other telecom carrier, it is now laying optic fibre from the main exchange to the local exchange. This could add to its strong position as an internet service provider because of all the attendant bandwidth advantages.

None of the above is a mystery to those who are familiar with NTT. However, rather like its major overseas peer group (which for well-understood companies have achieved extraordinary returns), it is the massive power of this incumbent that is perhaps being underestimated. In particular, NTT is at the centre of the communications industry of the world's second largest economy and because of Japan's Pacific-based trade, it has a natural advantage over foreign carriers or newcomers.

As a one-time monopoly, it has been careless with its costs and capital expenditure. This is changing following its break-up into three divisions in July 1999; accountability will improve and like Japan Railway before it, profit improvements will surprise even the optimists. Most analysts are looking for profits to nearly double over the next five years – we think it will be higher. Consider; fixed costs such as depreciation alone accounts for 25% of sales, with capital spending diminishing this will massively boost profits. Further, the use of sub-contractors is being reviewed and new arrangements entered into. For example, the yellow and white pages divisions that have proved so successful for Telcos the world over, are loss making in Japan.

Most appealing of all is NTT's valuation. It earns a higher proportion of its revenues from mobile phones on account of DoCoMo's 57% share of that market, yet it is valued, in terms of cash flow to enterprise value, at one-fifth lower than its western peer group. This is explained by its history of gold-plating everything. The valuation, however, does not take account for its prospects as a leader in Japan's transformation to the multi-media age nor the fact that the lower cost of capital in Japan should allow a much higher valuation once the earnings growth pattern is reappraised.

PLATINUM CAPITAL LIMITED

1999 financial statements

Directors' report

In respect of the year ended 30 June 1999 the Directors of Platinum Capital Limited (the Company) submit the following report made out in accordance with a resolution of the Directors.

DIRECTORS

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

Michael Darling	(Chairman and Non-Executive Director)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Director)
Malcolm Halstead	(Director and Secretary)

Philip Pearce was a Director from 1 July 1998 until his resignation on 28 February 1999.

Peter Clarke was a Director from his appointment on 15 April 1999 until the date of this report.

PRINCIPAL ACTIVITY

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

TRADING RESULTS

The net profit of the Company for the year was $6,975,000 (1998: $9,803,000) after income tax expense of $9,164,000 (1998: $4,784,000).

DIVIDENDS

In respect of the year ended 30 June 1999 the Directors recommend the payment of a 6 cents per share fully franked final dividend payable to Shareholders recorded on the Share Register as at 18 October 1999, the Ex-Dividend date.

A special fully franked dividend of 4 cents per share was paid on 26 February 1999.

The fully franked final dividend of 6 cents per share for the year ended 30 June 1998 was paid on 6 November 1998.

REVIEW OF OPERATIONS

Operating Revenue

The operating revenue for the year was $138,492,000 (1998: $128,944,000).

Operating Profit

The operating profit before tax was $16,139,000 (1998: $14,587,000) and $6,975,000 (1998: $9,803,000) after tax.

Taxation

Income tax expense for the year was $9,164,000 (1998: $4,784,000).

CHANGES IN THE STATE OF AFFAIRS

During the year the Company purchased, on market, 241,645 of its ordinary shares at an average price of $1.11 per share. There were no other significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

EVENTS SUBSEQUENT TO BALANCE DATE

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

LIKELY DEVELOPMENTS

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

ROUNDING OFF OF AMOUNTS

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

DIRECTORS' EMOLUMENTS

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

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

	Salary $	Superannuation $	Total $
MG Darling	25,000	1,750	26,750
PA Pearce	13,000	910	13,910
PW Clarke	5,000	350	5,350
	43,000	3,010	46,010

DIRECTORS' INTERESTS IN CONTRACTS

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

INSURANCE

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

INFORMATION ON DIRECTORS

Michael G Darling BA Law (Oxon), MBA (Harvard)
Chairman (Age 53)

Relevant interest in 3,560,420 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 company Gympie Gold Limited and of portfolio investment company Caledonia Investments Limited. Other Directorships include Pilatus Capital Limited, Art Exhibitions Australia Limited and The Centre for Independent Studies Limited.

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

Peter William Clarke BSc(Econ), AIIMR
Non-Executive Director (Age 63)

Appointed 15 April 1999

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

Other Directorships include Canning Energy Limited and Climax Mining Limited.

Kerr Neilson BCom, AIIMR
Managing Director (Age 49)

Relevant interest in 1,267,829 shares in the Company.

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

Andrew M Clifford BCom(Hons), ASIA, ASA
Director (Age 33)

Relevant interest in 1,102,804 shares in the Company.

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

Malcolm Halstead ACA
Director and Secretary (Age 41)

Relevant interest in 1,091,802 shares in the Company.

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

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 1999, and the number of meetings held and attended by each Director.

	Board Meetings	
	Held while a Director	Attended
MG Darling	6	6
PW Clarke	2	1
PA Pearce	4	2
WK Neilson	6	6
AM Clifford	6	4
RM Halstead	6	6

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

MG Darling Director

WK Neilson Director

Sydney 6 August 1999

Corporate governance

BOARD MEMBERSHIP

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

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

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

The Managing Director is appointed in accordance with the Investment Management contract with Platinum Asset Management and the Constitution. Under the Constitution Directors, other than the Managing Director, must retire from office no later than the third Annual General Meeting (AGM) following their last election and they may offer themselves for re-election.

DIRECTORS' ACCESS TO EXTERNAL ADVICE

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

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

DIRECTORS' COMPENSATION

The Executive Directors are not remunerated by the Company. The Executive Directors review and determine the remuneration of the Non-Executive Directors and may utilise the services of external advisors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors. 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.

ETHICAL STANDARDS

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

YEAR 2000

The operations of the Company are outsourced to the Investment Manager, Platinum Asset Management, to the Custodian, State Street Australia Limited and to the Share Registry, Computershare Registry Services Pty Limited. Accordingly any Year 2000 issues affecting the Company result from issues that affect the Investment Manager, Custodian or Share Registry.

The Company commenced its Year 2000 Project in February 1998. It will continue to regularly monitor the resolution of any unresolved issues until it is satisfied that it has minimal business risk to Year 2000 issues.

The Company continues to receive regular reports from State Street's Year 2000 Project Management Office. The most recent information available reveals that State Street is 100% Year 2000 ready in its mainframe hardware and software, data networks and regional business applications, and 96-98% ready on its core technology applications, desktops and LANs. It has indicated that those parts of its sub-custodian network which are relevant to the Company, should be ready by June 1999.

The Company has received information advising that both the hardware and software used by the Registry, and its computer bureau, are Year 2000 ready.

Platinum Asset Management regularly updates the Company on its Year 2000 project. The primary Year 2000 risk facing Platinum is technology. Platinum has advised the Board that all its hardware and operating systems are Year 2000 ready and that their primary application, HiPortfolio, has been upgraded to the Year 2000 ready version.

AUDIT COMMITTEE

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

SIGNIFICANT BUSINESS RISKS

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

Profit and loss account YEAR ENDED 30 JUNE 1999

	Notes	1999 $'000	1998 $'000
OPERATING REVENUE	3	138,492	128,944
OPERATING PROFIT/(LOSS) BEFORE INCOME TAX	4	16,139	14,587
Income tax attributable to operating profit/(loss)	5	9,164	4,784
OPERATING PROFIT/(LOSS) AFTER INCOME TAX		6,975	9,803
Amounts transferred from/(to) reserves	11	–	3
Profit on share buyback	10	–	165
Retained earnings at the beginning of the financial period		8,649	8,482
Total available for appropriation		15,624	18,453
Dividends	18	10,101	9,804
RETAINED EARNINGS AT THE END OF THE FINANCIAL YEAR		5,523	8,649

The profit and loss account should be read in conjunction with the accompanying notes

Balance sheet AS AT 30 JUNE 1999

	Notes	1999 $'000	1998 $'000
INVESTMENTS	1(c), 6	124,404	119,502
CURRENT ASSETS			
Cash at bank	13	95	116
Receivables	7	1,614	1,692
Future income tax benefit		45	43
TOTAL CURRENT ASSETS		1,754	1,851
TOTAL ASSETS		126,158	121,353
CURRENT LIABILITIES			
Payables	8	2,999	4,635
Provisions	9	15,772	10,192
TOTAL CURRENT LIABILITIES		18,771	14,827
TOTAL LIABILITIES		18,771	14,827
NET ASSETS		107,387	106,526
SHAREHOLDERS' EQUITY			
Share capital	10	101,864	97,877
Retained earnings		5,523	8,649
TOTAL SHAREHOLDERS' EQUITY		107,387	106,526

The balance sheet should be read in conjunction with the accompanying notes

Statement of cash flows YEAR ENDED 30 JUNE 1999

	Notes	1999 $'000 Inflows (Outflows)	1998 $'000 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends received		1,671	2,760
Interest received		424	429
Cost of purchases of investments and currencies		(132,218)	(105,279)
Proceeds from sale of investments and currencies		136,239	125,922
Management fees paid		(1,921)	(1,871)
Other expenses		(801)	(994)
Income tax paid		(3,821)	(2,645)
NET CASH FROM OPERATING ACTIVITIES	13(b)	(427)	18,322
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		4,254	–
Dividends paid		(9,893)	(6,873)
Cash paid in share buyback		(385)	(1,840)
NET CASH FROM FINANCING ACTIVITIES		(6,024)	(8,713)
Net Increase/(decrease) in cash held		(6,451)	9,609
Cash held at the beginning of the financial year		16,896	6,979
Effects of exchange rate changes on cash		(160)	308
CASH HELD AT 30 JUNE 1999	13(a)	10,285	16,896

The statement of cash flows should be read in conjunction with the accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of Accounting

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

(b) Foreign Currency Translation

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

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

(c) Investments

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

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

(d) 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 Note 1(b) above.

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

Currency positions are disclosed in Note 16(b).

(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 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(a).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Income Recognition

Interest income is recognised on an accruals basis.

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

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

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

(f) Directors' Entitlements

Liabilities for Directors' entitlements to 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) 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	1999 $'000	1998 $'000
Gross proceeds from disposal of investments and currencies	136,239	125,922
Dividend income	1,823	2,598
Interest income	430	424
	138,492	128,944

4. OPERATING PROFIT/(LOSS)	1999 $'000	1998 $'000
Operating profit/(loss) before income tax has been determined after:		
CREDITING		
– Dividends from other entities	1,823	2,598
– Interest	430	424
– Net profit on sale of investments	18,332	11,010
– Foreign exchange gain/(loss):		
Net profit/(loss) on foreign currency hedging transactions	(1,359)	1,847
Other net foreign exchange profit/(loss)	(735)	1,513
Net unrealised profit/(loss) on monetary items	1,542	1,016
CHARGING AS EXPENSE		
– Auditors' remuneration		
Auditing and review	25	23
Other	26	9
– Investment management fees	1,917	1,890
– Share registry, CHESS and custodian fees	353	324
– Directors' Remuneration		
Salary	43	45
Superannuation	3	3
– Permanent diminution in the value of investments	1,171	926

5. INCOME TAX

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%	5,810	5,251
Tax effect on permanent differences which:		
Reduce Tax Payable		
– Capital Gains Indexation	(191)	(97)
– Allowable credits	(6)	(137)
– Non-taxable receipts	(7)	(1)
– Losses recouped	–	(552)
Future income tax benefit not recognised	3,562	333
Under/(over) provision of prior period tax	(4)	(13)
	9,164	4,784

5. INCOME TAX CONTINUED	1999 $'000	1998 $'000
The income tax expense attributable to operating profit/(loss) comprises:		
Current income tax provision	8,619	4,573
Deferred income tax provision	551	224
Future income tax benefit	(2)	–
Under/(over) provision of prior period tax	(4)	(13)
	9,164	4,784

FUTURE INCOME TAX BENEFIT

Potential future income tax benefits of $6,859,000 (1998: $3,297,000) arising from $16,220,000 (1998: $7,497,000) of quarantined foreign losses and a permanent diminution in the value of investments of $2,833,000 (1998: $1,662,000) 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	Net Fair Value 1999 $'000	Cost/ Carrying Value 1999 $'000	Net Fair Value 1998 $'000	Cost/ Carrying Value 1998 $'000
Listed securities	122,919	111,650	122,246	101,784
Currency hedges	2,564	2,564	938	938
Cash on deposit Note 13(a)	10,190	10,190	16,780	16,780
TOTAL INVESTMENT PORTFOLIO NOTE 15	135,673	124,404	139,964	119,502

7. RECEIVABLES	1999 $'000	1998 $'000
CURRENT		
Proceeds on sale of investments	1,394	1,311
Accrued dividends	203	356
Accrued interest	3	10
Prepayments	14	15
	1,614	1,692

Proceeds on sale of investments are usually received between two and five days after trade date. Interest is usually received within three days of becoming due and receivable and dividends are usually received within approximately thirty days of the ex-dividend date.
The net fair value of receivables approximates their carrying value.

7. RECEIVABLES CONTINUED	1999 $'000	1998 $'000
Denomination of current receivables in foreign currencies:		
Brazilian real	–	5
British pound	77	292
Greek drachma	23	–
French franc	–	2
German mark	–	1
Italian lira	–	7
European common currency	51	–
Indonesian rupee	5	–
Japanese yen	113	155
Korean won	1,169	–
Spanish peseta	–	109
US dollar	163	1,105
	1,601	1,676

8. PAYABLES

CURRENT		
Payables on purchase of investments	2,557	4,050
Trade creditors (unsecured)	357	355
Unclaimed dividends payable to shareholders	85	112
Payable on buyback of shares	–	118
	2,999	4,635

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

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

The net fair value of payables approximates their carrying value.

Denomination of current payables in foreign currencies:		
British pound	–	526
German mark	–	1,572
US dollar	131	–
Italian lira	–	1,028
Japanese yen	2,426	462
Korean won	–	399
Spanish peseta	–	110
	2,557	4,097

9. PROVISIONS	1999 $'000	1998 $'000
CURRENT		
Dividends (Note 18)	6,108	5,873
Taxation	8,619	3,825
Deferred income tax	1,045	494
	15,772	10,192

10. SHARE CAPITAL		1999 Quantity	1999 $'000	1998 Quantity	1998 $'000
ISSUED SHARE CAPITAL					
Opening balance		97,876,745	97,877	100,000,005	100,000
Shares cancelled on market buyback	15-Aug-97	–	–	(35,594)	(36)
Shares cancelled on market buyback	24-Oct-97	–	–	(139,300)	(139)
Shares cancelled on market buyback	18-Nov-97	–	–	(1,073,500)	(1,074)
Shares cancelled on market buyback	24-Nov-97	–	–	(100,000)	(100)
Shares cancelled on market buyback	26-Nov-97	–	–	(271,075)	(271)
Shares cancelled on market buyback	4-Feb-98	–	–	(50,000)	(50)
Shares cancelled on market buyback	5-Feb-98	–	–	(35,190)	(35)
Shares cancelled on market buyback	21-Apr-98	–	–	(228,000)	(228)
Shares cancelled on market buyback	24-Jun-98	–	–	(12,877)	(13)
Shares cancelled on market buyback	25-Jun-98	–	–	(70,428)	(70)
Shares cancelled on market buyback	25-Jun-98	–	–	(107,296)	(107)
Shares cancelled on market buyback	17-Jul-98	(208,530)	(236)	–	–
Stamp duty refund – share buyback	23-Jul-98	–	3	–	–
Dividend reinvestment plan	6-Nov-98	2,485,216	2,560	–	–
Dividend reinvestment plan	26-Feb-99	1,677,363	1,694	–	–
Shares cancelled on market buyback	27-May-99	(33,115)	(34)	–	–
CLOSING BALANCE		101,797,679	101,864	97,876,745	97,877

241,645 (1998: 2,123,260) shares were bought back, representing 0.23% (1998: 2.17%) of the issued share capital, for a consideration of $269,759 (1998: $1,958,347) at a net loss of $28,114 (1998: net profit $164,913). The net loss in 1999 has been debited against share capital whilst in 1998 the net profit was credited to retained earnings, in accordance with the Urgent Issues Group accounting requirements. (In 1998 the value of shares cancelled represents the par value of the shares whereas in 1999 the value of the shares cancelled represents the actual cost.)

A Victorian Supreme Court decision in the 'Coles Myer case' resulted in the stamp duty refund.

11. REVALUATION RESERVE	1999 $'000	1998 $'000
Balance at 1 July	–	3
Amounts transferred (to)/from Profit and Loss account;		
– Unrealised profits/(losses) on revaluation of monetary items	–	(3)
	–	–

12. EARNINGS PER SHARE		
Basic earnings per share – cents per share	6.91	9.91
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	100,948,366	98,901,146

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

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 which are readily convertible to cash on hand.

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

	1999 $'000	1998 $'000
Cash at bank*	95	116
Cash on deposit** Note 6	10,190	16,780
	10,285	16,896

* Includes $85,000 (1998:$112,000) held in respect of unclaimed dividends on behalf of Shareholders or the Office of State Revenue.

** Includes $3,109,000 (1998: $3,776,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges as security and are not available for use by the Company until the derivative contracts are closed out. If losses are realised on the close out of derivative contracts the cash balances are set off against those losses.
If profits are realised on the close out of derivative contracts the money is returned to the Company.

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

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bear floating interest rates in the range of 1.50% to 2.65% (1998:1.50% to 2.65%).

International and Australian deposits at call bear floating interest rates in the range of 0.25% to 4.50% (1998: 0.50% to 5.00%). International deposits and margin calls at derivative exchanges bear floating interest rates in the range of 0.50% to 4.00% (1998: 0.50% to 2.00%).

13. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED	1999 $'000	1998 $'000
(b) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES TO OPERATING PROFIT/(LOSS) AFTER INCOME TAX		
Operating profit/(loss) after income tax	6,975	9,803
Decrease/(increase) in investment securities	(11,492)	(9,952)
(Increase)/decrease in cash due to exchange rate movements	160	(308)
Decrease/(increase) in settlements receivable	(83)	14,528
Decrease/(increase) in dividends receivable	153	(162)
Decrease/(increase) in interest receivable	7	(5)
Decrease/(increase) in prepayments	1	11
(Decrease)/increase in accrued expenses	2	41
(Decrease)/increase in settlements payable	(1,493)	2,228
(Decrease)/increase in income tax payable	4,794	1,914
Increase/(decrease) in future income tax benefit	(2)	–
Increase/(decrease) in deferred income tax	551	224
NET CASH FROM OPERATING ACTIVITIES	(427)	18,322

14. STATEMENT OF NET ASSET VALUE

TAKING INVESTMENTS AT MARKET VALUE* AND PROVIDING FOR REALISED AND UNREALISED TAXES		
Net Asset Value per Balance Sheet (Historical cost basis)	107,387	106,526
Add:		
Revaluation of investments	11,269	20,462
Proposed dividends	6,108	5,873
Utilisation of losses on unrealised gains	498	–
Less:		
Deferred income tax on revaluation of investments	(2,818)	(6,607)
NET ASSET VALUE	122,444	126,254
NET ASSET VALUE – CENTS PER SHARE	120.28	128.99

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

15. INVESTMENT PORTFOLIO	Quantity	Net Fair Value $'000
JAPAN		
Aiful	2,000	367
AIM Services	39,000	869
Banyu Pharmaceutical	50,000	1,238
Canon	50,000	2,154
Citizen Watch	54,000	702
CSK	15,000	511
Daiichi Pharmaceutical	66,000	1,534
Daiwa Securities	222,000	2,226
DDI	518	4,829
Fujitsu	41,000	1,236
Iino Kaiun Kaisha	46,000	141
Intec	56,000	1,095
Kinki Coca-Cola Bottling	73,000	1,898
Kuraya Yakuhin	35,300	782
Kyocera	15,200	1,336
Matsushita Denki Sangyo	44,000	1,280
Mitsubishi Heavy Industries	56,000	340
Mikuni Coca-Cola Bottling	111,000	3,380
National House Industrial	42,000	489
Nikko Securities	38,000	367
Nippon Broadcasting System	32,000	2,377
NTT	178	3,129
NTT Mobile Communications Network – New	144	2,888
NTT Mobile Communications Network	36	731
Okumura	104,000	579
Sanyo Coca-Cola Bottling	90	3
Sekisui Chemical	108,000	939
Shikoku Coca-Cola Bottling	72,100	1,656
Sony	23,900	3,861
Suzuken	79,400	3,342
Taikisha	56,000	763
Takasago Thermal	23,000	329
Tokyo Broadcasting System	31,000	672
Tokyo Electronic Power	42,000	1,344
Toshiba	216,000	2,308
Trans Cosmos	21,000	2,288
Yokogawa Denki	75,000	664
		54,647
OTHER ASIA		
Hong Kong		
China Telecom	313,200	1,302
		1,302

15. INVESTMENT PORTFOLIO CONTINUED	Quantity	Net Fair Value $'000
India		
Industrial & Credit Corporation of India – GDR	8,950	138
Tata Engineering – GDR	12,460	108
Videsh Sanchar Nigam – GDR	10,000	192
		438
Indonesia		
Unilever	260	233
		233
Korea		
Daewoo Securities	42,000	1,222
Korea Telecom	34,000	3,377
Korea Telecom – Call Option May 01	34,000	119
Lotte Confectionary	16,330	3,864
Samsung Electronics	1,575	259
		8,841
TOTAL OTHER ASIA		10,814
AUSTRALIA		
Jupiters	274,000	951
Star City Holdings	1,108,140	1,625
		2,576
WESTERN EUROPE		
France		
Alcatel Alsthom	16,446	3,480
Pernod Ricard	4,014	405
		3,885
Germany		
Deutsche Bank	28,596	2,630
Douglas Holding	20,000	1,349
Draegerwerk – Preferred	45,549	975
Escada – Preferred	6,620	1,329
Hoechst	32,000	2,178
Hornbach Baumarkt	28,905	1,277
Hornbach Holding – Preferred	17,114	1,101
Linde	1,490	1,341
Siemens	29,225	3,394
Wella	1,086	1,051
Wella – Preferred	892	975
		17,600
Greece		
Hellenic Telecom	27,320	880
Hellenic Telecom – ADR	26,000	417
		1,297

15. INVESTMENT PORTFOLIO CONTINUED	Quantity	Net Fair Value $'000
Italy		
Banca Di Roma	230,000	499
Instituto Bancario San Paolo di Torino	45,000	923
Le Rinascente	86,000	988
Le Rinascente – Preferred	130,756	809
Le Rinascente – Savings	139,000	752
Telecom Italia	44,000	686
Telecom Italia – Savings	35,530	291
Toro Assicurazioni	18,500	348
		5,296
Netherlands		
Akzo Nobel	10,047	636
		636
Sweden		
Ericsson – ADR	31,000	1,528
Ericsson – Bearer	15,500	749
		2,277
Switzerland		
Kuhne and Nagel – Bearer	750	783
Schindler – Participating Certificates	546	1,256
Schindler – Registered	48	113
Schweizersche Industrie Gesellschaft Holdings – Registered	3,260	2,918
		5,070
United Kingdom		
Imperial Chemical Industries	53,000	785
Pilkington	767,135	1,576
RMC	52,649	1,270
SCAPA Group	466,493	1,609
WPP Group	218,000	2,763
		8,003
TOTAL WESTERN EUROPE		44,064
EASTERN EUROPE		
Kazakstan		
Kazakstan Investment Fund – Partly Paid	77,000	432
		432
TOTAL EASTERN EUROPE		432
NORTH AMERICA		
Canada		
Indochina Gold	30,900	46
		46

15. INVESTMENT PORTFOLIO (CONTINUED)	Quantity	Net Fair Value $'000
United States		
Acuson	117,140	3,013
Advanced Micro Devices	32,200	870
Diagnostic Products	38,400	1,588
Great Lakes Chemical	9,900	682
GTE	12,900	1,458
JD Edwards	9,800	271
Manpower	23,000	779
Novell	22,800	904
Octel	13,300	249
Orckit Communications	14,700	545
Capital One Financial	(19,470)	63
S&P 500 Sep 99	(51)	(1,350)
		9,072
TOTAL NORTH AMERICA		9,118
SOUTH AMERICA		
Brasil		
Copel – ON	27,900,000	209
Copel – PN	26,350,000	320
Oderbrech – ON	72,800,000	123
		652
Peru		
Bayer Peru – Trabajo	77,287	68
Cerveceria Backus & Johnson – Trabajo	422,978	222
Industrias Pacocha – Trabajo	520,390	119
Peru Real Estate SA – B Common	776,746	206
		615
TOTAL SOUTH AMERICA		1,267
LIQUIDS		
Outstanding settlements		(959)
Foreign exchange contracts		2,564
Cast at bank and on deposit		10,190
		11,795
TOTAL INVESTMENT PORTFOLIO (NOTE 16(a) AND (b))		134,713
Accounted for in Payables (payables on purchase of investments)		2,557
Accounted for in Receivables (proceeds on sale of investments)		(1,394)
Accounted for Receivables (dividends receivable)		(203)
ACCOUNTED FOR IN INVESTMENTS (NOTE 6)		135,673

15. INVESTMENT PORTFOLIO CONTINUED

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

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

Investments with a total cost of $42,804,769 (1998: $30,419,000) are carried at an amount in excess of their net fair value of $9,358,379 (1998: $25,259,000); refer to Note 1(c). Investment markets are in a continuous state of flux, changing the net fair value of the Company's investments, sometimes to below original cost. The Company is a long term value investor and short term fluctuations in the net fair value of investments are not taken to account, other than if they represent a permanent diminution in value.

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 subject to price (which includes currency, interest rate and market risk) credit and liquidity risks.

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

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

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

16. RISK MANAGEMENT CONTINUED

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

The investment activities of the Company expose it to market risk – the possibility of losing money owing to changes in the market prices of its investments – and manages this risk through derivative hedging contracts.

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

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

(a) INVESTMENTS AT NET FAIR VALUE AND DERIVATIVES EXPOSURE

	Physical $'000	Futures & Options $'000	Upside[a] $'000	Futures & Options $'000	Downside[b] $'000
Japan	54,647		54,647		54,647
Other Asia	10,814		10,814		10,814
Australia	2,576		2,576		2,576
Western Europe ~ Euro	27,416		27,416		27,416
Western Europe	16,648		16,648		16,648
Eastern Europe	432		432		432
North America	9,118	(26,773)	(17,655)	(26,773)	(17,655)
South America	1,267		1,267		1,267
	122,918	(26,773)	96,145	(26,773)	96,145
Liquids	11,795	26,773	38,568	26,773	38,568
TOTAL NET FAIR VALUE OF PORTFOLIO	134,713	–	134,713	–	134,713

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.

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

16. RISK MANAGEMENT CONTINUED

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

The Company uses futures contracts in liquid markets and generally utilises short dated contracts; those with ninety day maturities.

The existing derivative positions' maturity dates range from seventy eight days to eighty days.

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.

(b) CURRENCY EXPOSURE AT NET FAIR VALUE

	Physical $'000	Bought $'000	Sold $'000	Net Exposure $'000
Japan	54,848	12,860	(51,287)	16,421
Other Asia	8,071			8,071
Australia	6,007	74,065		80,072
Western Europe ~ Euro	28,921		(17,954)	10,967
Western Europe	15,493			15,493
North America	19,732	44,431	(62,115)	2,048
South America	1,641			1,641
TOTAL NET FAIR VALUE OF PORTFOLIO	134,713	131,356	(131,356)	134,713

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 (ninety day maturities) currency agreements with high credit rated counterparties.

The existing currency hedging positions' maturity dates range from fifteen days to seventy eight days.

(c) INTEREST RATE EXPOSURE

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

Refer to Note 13(a) for information on short term interest rates.

17. FRANKING ACCOUNT		1999 $'000	1998 $'000
Opening Balance – Class C		16,781	18,475
On dividends received:	Franked at 36%	56	5
On tax paid and payable:	1997/1998	–	8,128
	1998/1999	15,322	–
Prior year tax provision – franking adjustment		9	(23)
Prior year final dividend adjustment on shares cancelled (on market buyback)		13	–
Special dividend paid – franked @ 36%		(4,006)	(3,931)
Proposed dividends – franked @ 36%		(6,108)	(5,873)
		22,067	16,781
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 1999, after deducting franking credits applicable to any proposed dividends:			
Accumulated profits		5,523	8,649
		5,523	8,649

18. DIVIDENDS (FULLY FRANKED)	1999 cps	1999 $'000	1998 cps	1998 $'000
Paid – Special fully franked @ 36%	4.00	4,006	4.00	3,931
Prior year final dividend adjustment on shares cancelled (on market buyback)	–	(13)	–	–
Proposed – fully franked @ 36%				
– Final	6.00	6,108	4.00	3,915
– Special	–	–	2.00	1,958
	10.00	10,101	10.00	9,804

19. INVESTMENT MANAGER

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

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

19. INVESTMENT MANAGER CONTINUED

The aggregate of underperformance is carried forward until a Bonus fee becomes payable.

The pre-tax performance of the portfolio for the year to June 1999 was 4.77% against the MSCI's 8.21%.

Accordingly, a performance fee has not been accrued.

The 4.77% represents an underperformance against the MSCI of 3.44%; this amount will be carried forward as a deduction against subsequent years' performance fee calculations.

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

	1999 $'000	1998 $'000
Amounts paid and payable to the Investment Manager for the year	1,917	1,890

20. CONTINGENT LIABILITIES AND COMMITMENTS FOR EXPENDITURE

No contingent liabilities exist at balance date.

The Company has commitments for uncalled share capital on investments of $347,000 (1998: $372,000).

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 pre-determined asset allocation ranges as it uses a stock selection methodology. Accordingly the results of the Company are a function of the investment portfolio and its make up is a function of the stock selection process. As the investment portfolio's composition varies dependent on stock selection decisions it is not considered appropriate to allocate revenues to some pre-determined contrived segment, which would be contradictory to the investment objective of the Company.

22. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact the financial position of the Company as at 30 June 1999 and the results for the year ended on that date.

23. RELATED PARTY INFORMATION

(a) DIRECTORS

The names of persons who were Directors of Platinum Capital Limited at any time during the financial year are as follows: MG Darling, PW Clarke, PA Pearce, WKS Neilson, AM Clifford and RM Halstead. All of these persons were also Directors during the year ended 30 June 1998, except for PW Clarke who was appointed on 15 April 1999. Mr PA Pearce held office as Director until his retirement on 28 February 1999.

(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 are shown below in their relevant income bands:

	1999	1998
$20,000 – $29,999	1	2
$9,999 – $19,999	1	–
$0 – $9,999	1	–

The three Executive Directors, Messrs Neilson, Clifford and Halstead, are employees of and have a relevant interest in the Investment Manager and accordingly will receive some portion of the Management fee; they do not receive any Directors' remuneration from the Company. Refer to Note 19.

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

	1999 Ordinary Shares	1998 Ordinary Shares
MG Darling	3,560,420	3,300,000
PA Pearce	–	10,000
WK Neilson	1,267,829	1,152,401
AM Clifford	1,102,804	1,002,401
RM Halstead	1,091,802	992,401
PW Clarke	–	–

Directors' declaration

The Directors declare that the financial statements and notes set out on pages 24 to 44:

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

(b) give a true and fair view of the Company's financial position as at 30 June 1999 and their performance as represented by the results of its operations and its cashflows for the financial year ended on that date.

In the Directors' opinion:

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

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

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

MG Darling Director

WK Neilson Director

Sydney 6 August 1999

Independent audit report TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

SCOPE

We have audited the financial report of Platinum Capital Limited (the Company) for the year ended 30 June 1999 as set out on pages 11 to 45. The Company's Directors are responsible for the preparation and presentation of the financial report and information contained therein. We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the Company.

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

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

AUDIT OPINION

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

(a) the Corporations Law, including:

  (i) giving a true and fair view of the Company's financial position as at 30 June 1999 and of its performance for the financial year ended on that date; and

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

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers
Chartered Accountants

PK Merrett Partner

Sydney 6 August 1999

Shareholder information

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with section 715 of the Corporation Law, recorded the following information as at 31 July 1999.

Name	Number of shares	Class of share
Questor Financial Services Limited	8,679,544	ordinary
Telstra Super Pty Limited	5,000,000	ordinary

DISTRIBUTION OF SECURITIES

	Class of equity security ordinary
(i) Distribution schedule of holdings	
1-1000	164
1,001 – 5,000	1,674
5,001 – 10,000	1,334
10,001 and over	1,711
TOTAL NUMBER OF HOLDERS	4,883
(ii) Number of holders of less than a marketable parcel	67
(iii) Percentage held by the 20 largest holders	36.73%

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of equity securities as at 31 July 1999 are listed below.

	Number of shares	%
Questor Financial Services Limited	9,885,503	9.71
Perpetual Trustee Company Ltd	8,389,244	8.24
National Nominees Limited	5,686,559	5.59
Caledonia Investments Limited	3,285,382	3.23
Perpetual Trustee Company Ltd	1,529,570	1.50
RPG Management Pty Limited	1,136,228	1.12
Platinum Asset Management Limited	1,047,795	1.03
Groote Eylandt Aboriginal Trust Inc	1,028,941	1.01
Cox Bros Coffs Harbour Pty Limited	1,000,000	0.98
Merrill Lynch (Australia) Nominees Pty Limited	847,000	0.83
Tower Trust Limited	459,310	0.45
Perpetual Custodians Limited	398,074	0.39
ANZ Nominees Limited	393,000	0.39
Mr Gregory Mitchell Maughan	370,388	0.36
Somoke Pty Limited	369,764	0.36
Feboco Investments Pty Limited	330,703	0.32
Nizin Holdings Pty Limited	330,049	0.32
Westpac Custodian Nominees	318,375	0.31
Waipaoa Station Limited	301,089	0.30
Veredi Pty Limited	297,854	0.29

Shareholder information

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 1999
Ordinary Shares trade Ex-Dividend	18 October 1999
Record (books close) date for Final dividend	26 October 1999
Final dividend paid	2 November 1999

These dates are indicative and may be changed.

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

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

   Number of transactions – 1,104 Total brokerage paid – $723,000
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 Constitution, 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 may retire after giving six months notice;

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

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

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

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

DIRECTORS
Michael Darling
Peter Clarke
Kerr Neilson
Andrew Clifford
Malcolm Halstead

SECRETARY
Malcolm Halstead

REGISTERED OFFICE
Level 21, Gold Fields House
1 Alfred Street
Sydney NSW 2000
Phone (61 2) 9255 7500

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

AUDITORS AND TAXATION ADVISORS
PricewaterhouseCoopers
580 George 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, South America
Andrew Clifford ~ North America
Jim Simpson ~ Japan, Korea, S.E. Asia
Doug Huey ~ S.E. Asia
Toby Harrop ~ Europe, Currencies
Diane Lin ~ Japan
Alex Barbi ~ Europe
Hugh Giddy ~ North America
Liz Norman ~ Shareholder Liaison