TYRANNY OF TRADITION

Designed and produced by 3C
Illustrations by David Wallace

TYRANNY OF TRADITION

II **PREFACE**

IV **LONG TIME COMING**
The Prospects for Democracy in China

XVIII **THE MYTH OF THE AUTHORITARIAN MODEL**
How Putin's Crackdown Holds Russia Back

THE ANNUAL REPORT THIS YEAR FEATURES TWO ARTICLES WHICH EXAMINE CHANGES IN THE POLITICAL STRUCTURES IN CHINA AND RUSSIA.

In the early 1990s the standing observation in financial markets was that China was prioritising the modernisation of its economic system ahead of its political system. This was judged by many as sound when juxtaposed against Russia which at the time was doing the precise opposite. Boris Yeltsin, the first elected President was pushing through far-reaching reforms in a country that had a long history of despotic authoritarian leaders. This was achieved in the face of falling economic activity and rising inflation. The rise of the oligarchs was front page news as they hoovered up the privatisation certificates from disaffected and ignorant workers and then cemented their positions via cross holdings and large scale amalgamations. The concern at the time was how the benefits would accrue to the "average" Russian and how well indeed democracy would work.

China also presents a model of a government contending with the effects of its rapid economic growth, social change and the pressure for political reforms. There are more than cultural differences between the forms and processes of democracy envisioned by China's leaders and those commonly enshrined in Western political systems. The popular media have tended to focus on the regressive and high-handed behaviour of China with dissidents and in Tibet. However, in contrast to Russia, the article, *Long Time Coming – The Prospects for Democracy in China* gives an interesting account of changes and growth in democratic forms and processes in China. The article details real changes that are taking place at an ideological and practical level that have significance and the potential to transform China to a modern pluralist liberal state. The full text of the article has been abridged here for reasons of space, but in 2006 in a visit to the United States, Premier Wen Jiabao enunciated three key components in China's concept of democracy: elections, judicial independence and supervision based on checks and balances.

Apart from the CCP leadership addressing reform within the party, it is also encouraging to discover the forces that have been unleashed from market reform. Consider for example, the effect of 12,000 licensed legal firms whose commercial success will presumably hinge on their performance in court. Likewise the commercialisation of China's press is resulting in the publication of material unpalatable to Beijing tastes and in stark contrast to the "information gathering" function of the official Xinhua News Agency. Things are not always as they seem, however. Forbes Asia ran an excellent story in its 21 July edition highlighting the practice of red envelopes. This is where journalists working for major media interests, or simply masquerading as journalists, extract hush money payment for NOT running stories on events such as coal mine accidents.

The article *The Myth of the Authoritarian Model – How Putin's Crackdown Holds Russia Back* has, as its central contention, the argument that Putin's undermining of the democratic gains of the early post-Communist years has created a society where despite strong economic growth, the outcomes for the average Russian on a whole range of measures mean that they are worse off today than a decade ago. Economic growth is principally attributed to the reforms arising from the end of communism and to the benefit of rising world oil prices. The blame for constraints on economic growth is put upon the concomitants of a more autocratic rule – more corruption, less secure property rights and transfer of formerly prosperous private companies to state controlled assets of diminished value. There are significant variables lurking close to the surface in this scenario. If oil is a key element to the prosperity of the people and the maintenance of Putin's political power, then the effective management of this resource and the strategic deployment of profits to build infrastructure for longer term economic wealth is critical.

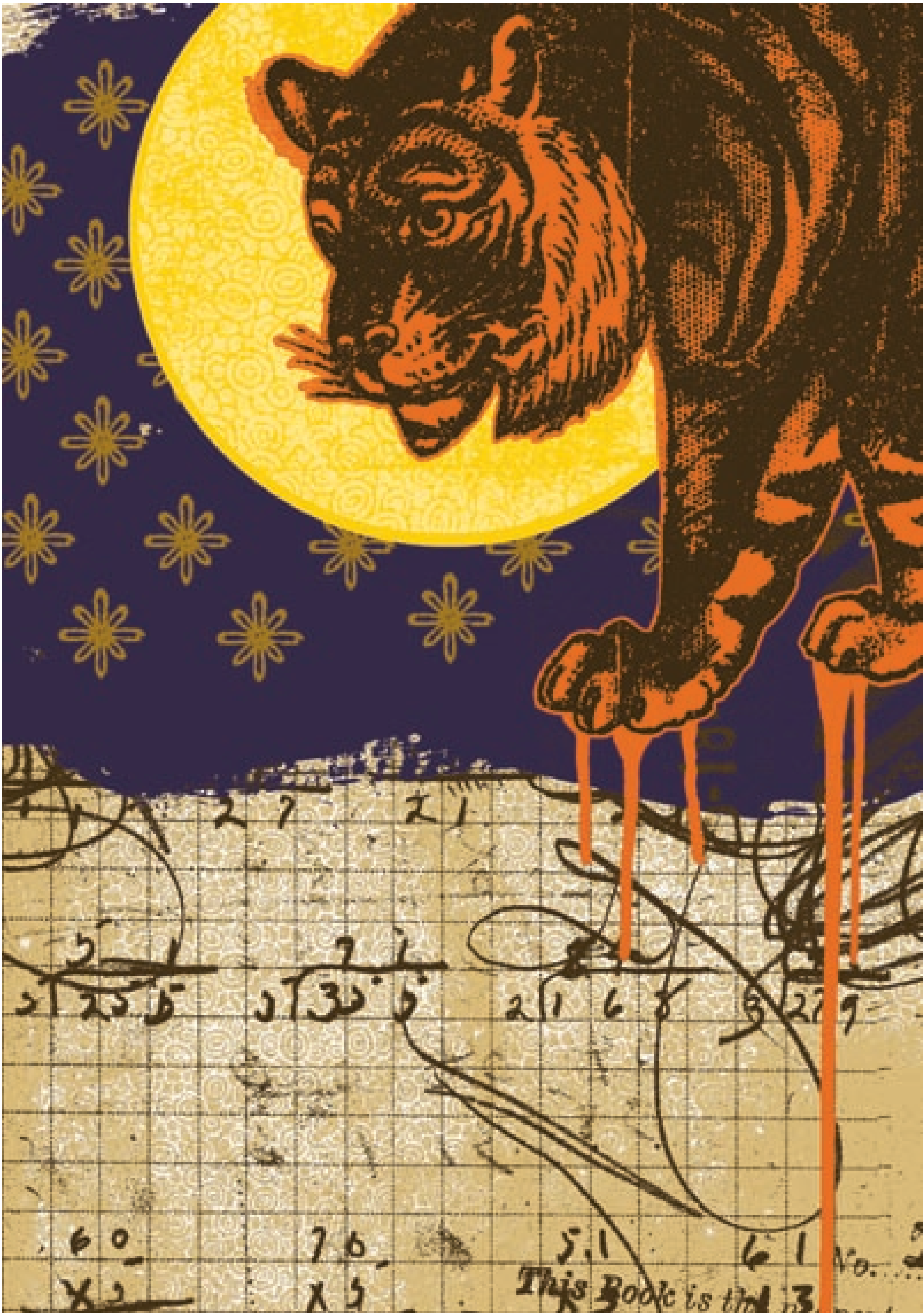
As Ivan Krastev[1] points out, "Although Russia's economy has performed well in the past 10 years, it is more dependent on the production and export of natural resources today than it was during Soviet times." What the Western observer may ponder is the domestic stability and the direction of foreign policy in a regime that "offers its citizens consumer rights but not political freedoms, state sovereignty but not individual autonomy, a market economy but not genuine democracy."

Another tyranny prevails in China – the legacy of the Cultural Revolution that bit deeply into the Chinese psyche and lingers in the personal connections and corruption that, not surprisingly, impede the reform process that is now in evidence.

With the world readying itself for massive changes in the balance of world power, we felt these articles would offer some insights. As an investor it has important implications for risk and potential reward. Whichever way it turns, surely the old order will be hard-pressed to dominate global debate…

KERR NEILSON
Managing Director

1 Krastev, Ivan, *What Russia wants*, The Australian Financial Review, 23 May 2008


No.
This Book is the

LONG TIME COMING

THE PROSPECTS FOR DEMOCRACY IN CHINA

JOHN L THORNTON

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

CHINA'S LEADERS HAVE HELD OUT THE PROMISE OF SOME FORM OF DEMOCRACY TO THE PEOPLE OF CHINA FOR NEARLY A CENTURY. After China's last dynasty, the Qing, collapsed in 1911, Sun Yat-sen suggested a three-year period of temporary military rule, followed by a six-year phase of "political tutelage," to guide the country's transition into a full constitutional republic. In 1940, Mao Zedong offered followers something he called "new democracy," in which leadership by the Communist Party would ensure the "democratic dictatorship" of the revolutionary groups over class enemies. And Deng Xiaoping, leading the country out of the anarchy of the Cultural Revolution, declared that democracy was a "major condition for emancipating the mind."

When they used the term "democracy," Sun, Mao, and Deng each had something quite different in mind. Sun's definition – which envisioned a constitutional government with universal suffrage, free elections, and separation of powers – came closest to a definition recognizable in the West. Through their deeds, Mao and Deng showed that despite their words, such concepts held little importance for them. Still, the three agreed that democracy was not an end in itself but rather a mechanism for achieving China's real purpose of becoming a country that could no longer be bullied by outside powers.

Democracy ultimately foundered under all three leaders. When Sun died, in 1925, warlordism and disunity still engulfed many parts of China. In his time, Mao showed less interest in democracy than in class struggle, mass movements, continuous revolution, and keeping his opponents off balance. And Deng demonstrated on a number of occasions – most dramatically in suppressing the Tiananmen protests of 1989 – that he would not let popular democratic movements overtake party rule or upset his plan for national development.

Today, of course, China is not a democracy. The Chinese Communist Party (CCP) has a monopoly on political power, and the country lacks freedom of speech, an independent judiciary, and other fundamental attributes of a pluralistic liberal system. Many inside and outside China remain skeptical about the prospects for political reform. Yet much is happening – in the government, in the CCP, in the economy, and in society at large – that could change how Chinese think about democracy and shape China's political future.

Both in public and in private, China's leaders are once again talking about democracy, this time with increasing frequency and detail. (This article is based on conversations held over the past 14 months with a broad range of Chinese, including members of the CCP's Central Committee – the group of China's top 370 leaders – senior government officials, scholars, judges, lawyers, journalists, and leaders of nongovernmental organizations.) President Hu Jintao has called democracy "the common pursuit of mankind." During his 2006 visit to the United States, Hu went out of his way to broach the subject at each stop. And Premier Wen Jiabao, in his address to the 2007 National People's Congress, devoted to democracy and the rule of law more than twice the attention he had in any previous such speech. "Developing democracy and improving the legal system," Wen declared, "are basic requirements of the socialist system."

As with earlier leaders, what the present generation has in mind differs from the definition used in the West. Top officials stress that the CCP's leadership must be preserved. Although they see a role for elections, particularly at the local level, they assert that a "deliberative" form of politics that allows individual citizens and groups to add their views to the decision-making process is more appropriate for China than open, multiparty competition for national power. They often mention meritocracy, including the use of examinations to test candidates' competence for office, reflecting an age-old Chinese belief that the government should be made up of the country's most talented. Chinese leaders do not welcome the latitude of freedom of speech, press, or assembly taken for granted in the West. They say they support the orderly expansion of these rights but focus more on the group and social harmony – what they consider the common good.

TODAY, OF COURSE, CHINA IS NOT A DEMOCRACY. YET MUCH IS HAPPENING THAT COULD CHANGE HOW CHINESE THINK ABOUT DEMOCRACY AND SHAPE CHINA'S POLITICAL FUTURE.

Below the top tier of leaders (who usually speak from a common script), Chinese officials differ on whether "guided democracy" is where China's current political evolution will end or is a way station en route to a more standard liberal democratic model. East Asia provides examples of several possibilities: the decades-long domination of politics by the Liberal Democratic Party in Japan, the prosperity with limited press freedom of Singapore, and the freewheeling multiparty system of South Korea. China might follow one of these paths, some speculate, or blaze its own.

In a meeting in late 2006 with a delegation from the Brookings Institution (of which I was a member), Premier Wen was asked what he and other Chinese leaders meant by the word "democracy," what form democracy was likely to take in China, and over what time frame. "When we talk about democracy," Wen replied, "we usually refer to three key components: elections, judicial independence, and supervision based on checks and balances." Regarding the first, he could foresee direct and indirect elections expanding gradually from villages to towns, counties, and even provinces. He did not mention developments beyond this, however. As for China's judicial system, which is riddled with corruption, Wen stressed the need for reform to assure the judiciary's "dignity, justice, and independence." And he explained that "supervision" – a Chinese term for ensuring effective oversight – was necessary to restrain abuses of official power. He called for checks and balances within the CCP and for greater official accountability to the public. The media and China's nearly 200 million Internet users should also participate "as appropriate" in the supervision of the government's work, he observed. Wen's bottom line: "We have to move toward democracy. We have many problems, but we know the direction in which we are going."

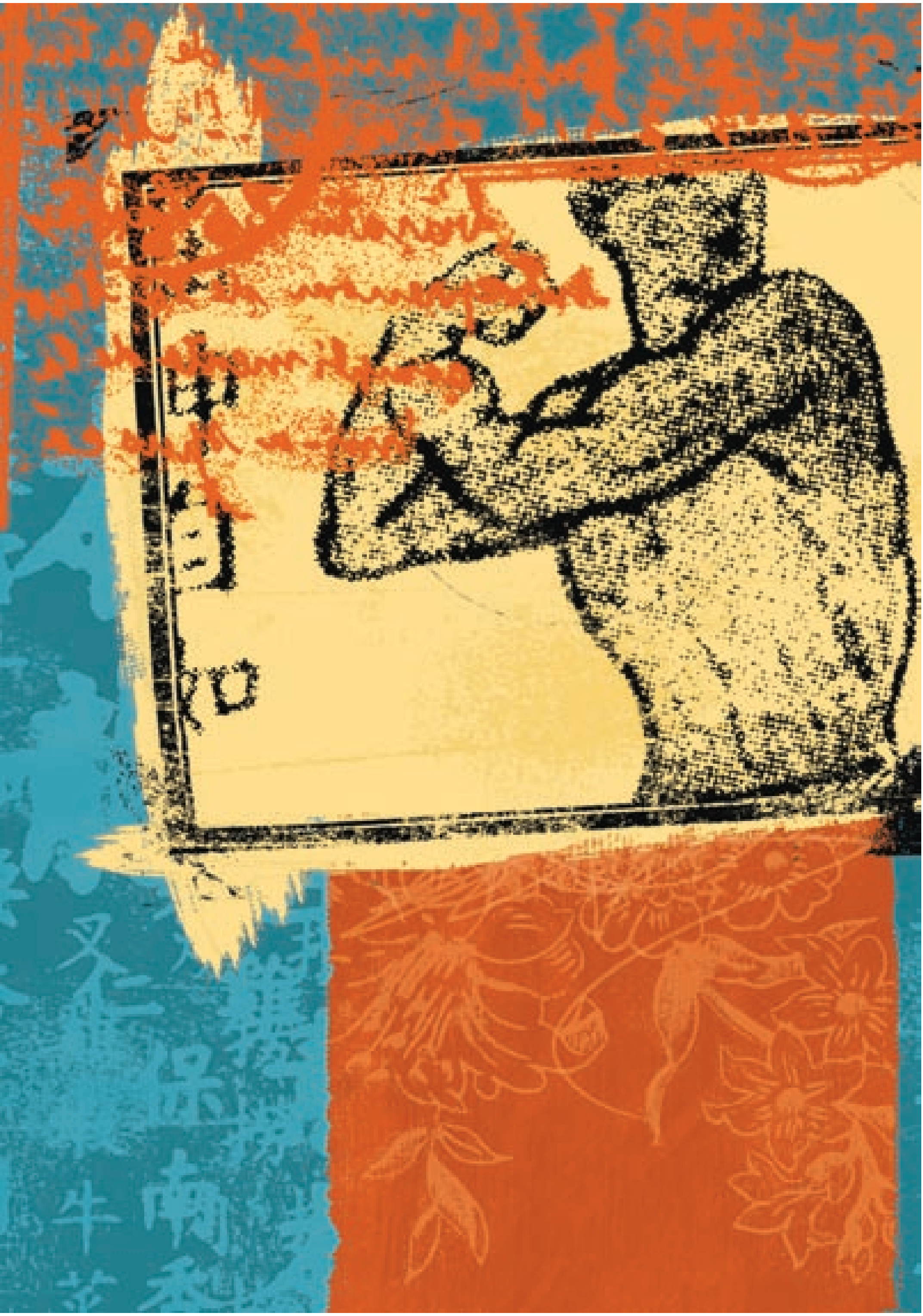
FREE TO CHOOSE

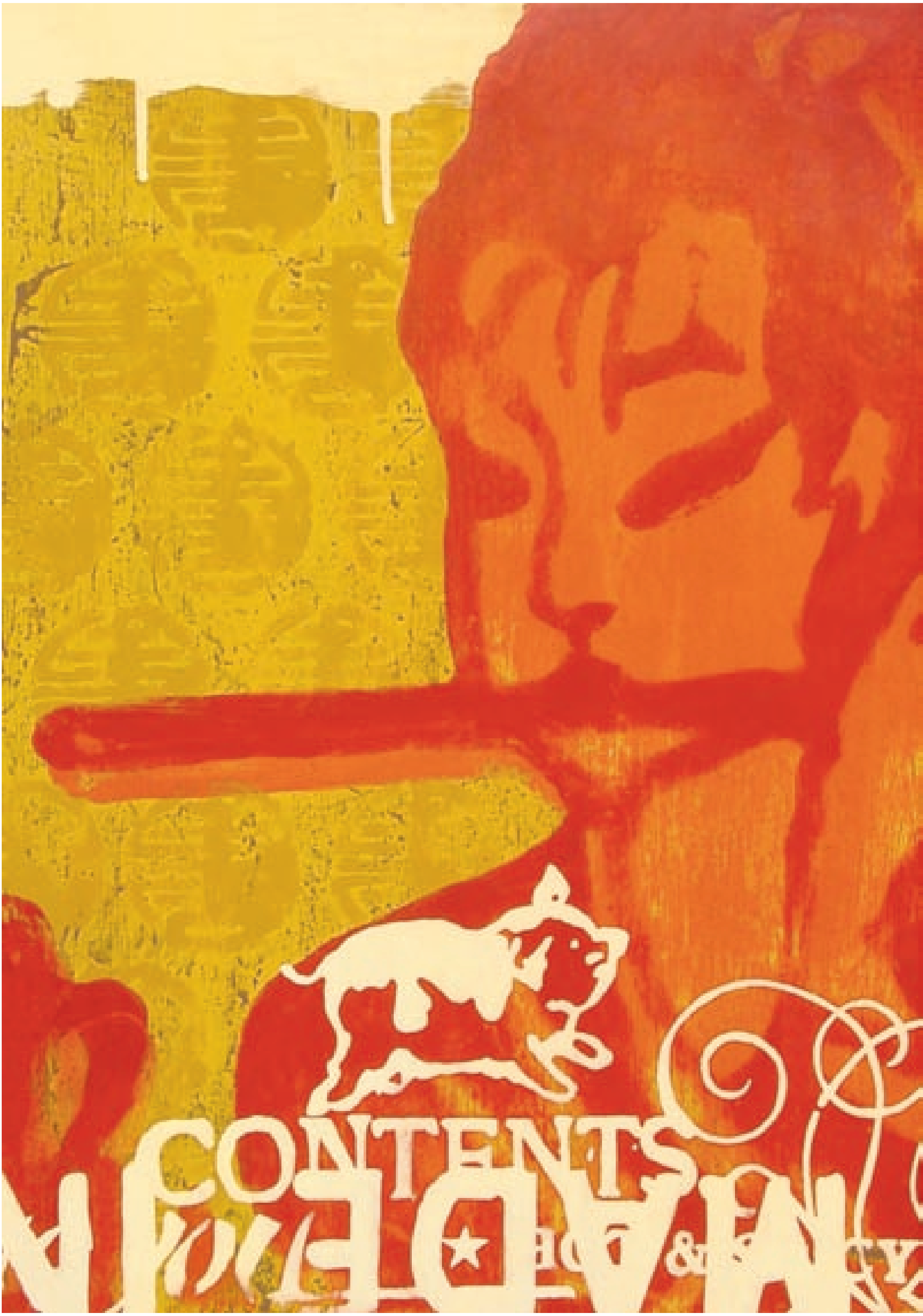
Given the gap between the democratic aspirations professed by leaders such as Hu and Wen and the skepticism that their words elicit in the West, a better understanding is needed of where exactly the process of democratization stands in China today. Chinese citizens do not have the right to choose their national leaders, but for more than a decade, peasants across the country have held ballots to elect village chiefs....

Electoral experiments at the county level – one administrative rung up from a township – have also attracted attention. Since 2000, 11 counties in Hubei and Jiangsu have conducted "open recommendation and selection" polls for the position of county deputy chief. This represents less than half a percent of the counties and county-level cities nationwide, but any reform of leadership selection in counties, which have an average population of about 450,000 each, would be significant news....

SOME EXPERTS CONSIDER A CCP THAT ACCEPTS OPEN DEBATE, INTERNAL LEADERSHIP ELECTIONS, AND DECISION-MAKING BY BALLOT TO BE A PREREQUISITE FOR DEMOCRACY IN THE COUNTRY AS A WHOLE.

In recent years, China's leaders have also made an effort to expand competitive selection within the CCP. Some experts believe that the development of "intraparty democracy" is even more significant for China's long-term political reform than the experiments in local governance. They consider a CCP that accepts open debate, internal leadership elections, and decision-making by ballot to be a prerequisite for democracy in the country as a whole. President Hu and Premier Wen routinely call for more discussion, consultation, and group decision-making within the CCP. Intraparty democracy was a centerpiece of Hu's keynote address to the CCP's 17th Party Congress last fall. Not long after the meeting, Li Yuanchao, the newly appointed head of the Party Organization Department, published a 7,000-character essay in the People's Daily elaborating on Hu's call for further reform in the party. The fact that Hu himself does not wield the personal authority of Mao, Deng, or his predecessor, Jiang Zemin, and relies




CONTENTS

on consensus within the nine-member Politburo Standing Committee, is itself noted as progress in unwinding the overcentralization of power at the national level. . . .

If intraparty democracy takes hold, some scholars predict a trend in which like-minded cadres will coalesce to form more distinct interest groups within the CCP. A senior official of the Central Party School told our Brookings delegation that "interest groups" were no longer taboo within the party, although organized "factions" were not permitted. Still, some analysts predict that the CCP may one day resemble Japan's ruling Liberal Democratic Party, within which formal, organized factions compete for senior political slots and advocate different policy positions. . . .

THE RULE OF LAW

. . . The Chinese judicial system has made great strides over the past three decades, but it still has far to go. In 1980, when the judicial system was just starting to rebuild itself after the devastation of the Cultural Revolution, Chinese courts nationwide accepted a total of 800,000 cases. By 2006, that number had jumped tenfold, reflecting the transformation of the place of law in society. China has passed over 250 new laws in the past 30 years and is in the midst of creating an entire national code from nothing. . . .

Paralleling the rise in the quality of judges and prosecutors has been the change in the status of China's lawyers. Before the late 1980s, all lawyers were employees of the state; private practice did not exist. The first "cooperative law firms" appeared in 1988-89, and today China has 118,000 licensed lawyers practicing in 12,000 firms. (To compare, the United States has more than eight times as many lawyers for a population one-fourth the size of China's.) The growth of private practice has propelled the further professionalization of the system as a whole, partly because lawyers need to win cases (or at least lighter sentences) for their clients in order to prosper. . . .

Still, Chinese officials acknowledge that the judicial process remains rife with problems. One of the most serious obstacles to impartial verdicts is the web of personal relationships known as guanxi – bonds forged over years by the exchange of favors and assistance – on which so many decisions in China are based. These ties can have an especially constraining effect on prosecutorial and court decisions. Judges in China routinely talk to the parties in a case privately, creating situations in which guanxi and corruption can readily contaminate the process. Some experts have suggested raising judges' salaries and taking other steps to create a judicial elite distinct from other government officials in order to address this endemic weakness. . . .

OVERSIGHT

… Another promising trend is the rapid commercialization of the Chinese press. The government still exercises extensive control over the media through government ownership of outlets and censorship. The redlines that journalists cannot cross still exist. But changes are taking place. As independent Chinese publications seek readers and advertisers, they pursue stories that people want to read; like their counterparts in the West, they have discovered that investigative journalism sells.…

DEMOCRACY IN CHINA

Recent progress in elections, judicial independence, and oversight is part of the transformation of Chinese society and the expansion of personal freedoms that have accompanied three decades of breakneck economic reform and development. The government remains intrusive in many areas but much less so than before.

In the past 20 years, several hundred million Chinese have migrated from the countryside to the cities – the largest wave of rapid urbanization in history. Until a decade ago, the government enforced stringent controls on internal migration. Today, officials cite the additional 300 million farmers expected to move to cities over the next two decades as a positive force that will help alleviate China's urban-rural income gap. The state once assigned jobs and housing to every urban resident. Now, urban Chinese enjoy overseas travel to study, work, or play. Ten years ago, a Chinese citizen needed to get permission from his supervisor, his work unit's party secretary, and the local police just to apply for a passport, a process that could take six months, assuming the passport was approved at all. The entire procedure takes less than a week today, and approval is nearly as automatic as it is in the United States. Less than two decades ago, all foreigners in Beijing were forced to live in designated locations, such as hotels or compounds guarded by military police. Today, foreigners and Chinese live side by side. When Chinese are asked about the democratization of their society, they are as likely to mention these sorts of changes as they are elections or judicial reform. They may be confusing the concept of liberty with that of democracy, but it would be a mistake to dismiss the expansion of their personal freedom as insignificant.

A senior Communist Party official I know marveled privately that ten years ago it would have been unimaginable for someone in his position to even be having an open discussion about democracy with an American. Now, the debate in China is no longer about whether to have democracy, he said, but about when and how. One thing the party should do immediately, he felt, was reform the National People's Congress so that it does not become a "retirement home" for former officials; the National People's

OVER THE LAST CENTURY, NO ONE HAS THOUGHT MORE ABOUT THE PROMISE OF DEMOCRACY IN THEIR COUNTRY OR BEEN MORE DISMAYED BY ITS ELUSIVENESS THAN THE CHINESE THEMSELVES.

Congress should be populated by competent professionals and eventually become a true legislative body. The government should also implement direct elections up to the provincial level, he argued, not Western-style multiparty elections but at least a contest involving a real choice of candidates.

The chair of one of China's largest corporations, who is also an alternate member of the CCP Central Committee, told me that better corporate governance in companies listed on overseas stock exchanges (and thus held to international norms), such as his, was another example of the expansion of "democratic habits" in China. Although corporate governance in China remains a work in progress, this chair said, the general trend among state-owned enterprises, especially those listed abroad, is toward greater transparency, stronger and more independent boards of directors, and management by mutually agreed rules. Over time, working in such an environment is likely to inculcate more democratic patterns of thinking in China's business elite, as well as in senior government officials who sit on the boards of state-owned enterprises.

Over the last century, no one has thought more about the promise of democracy in their country or been more dismayed by its elusiveness than the Chinese themselves. Again and again, they have witnessed a native democratic impulse surge and crash or be crushed prematurely. The empress dowager Cixi quashed the 1898 "hundred days of reform" initiated by advisers to the emperor Guangxu. The optimism that surrounded Sun's inauguration as provisional president of the Chinese Republic on January 1, 1912, was soon extinguished by the military ruler Yuan Shikai, who tried to crown himself as the first emperor of a new dynasty in 1915. Progressives within both the Nationalist and the Communist Parties espoused democratic forms of government in the 1930s before the onslaught of wars with Japan and then with each other. The establishment of the People's Republic in 1949 augured an era of self-determination, prosperity, and democracy. But that hope was crushed under the foot of Mao's relentless political campaigns, culminating in the Cultural Revolution. Before the tragedy of Tiananmen in 1989, the 1980s were a period of intense political ferment, when democracy was debated inside the government, think tanks, universities, and intellectual salons.

Compared to in those periods, the way in which China's leaders talk about democracy today may seem cautious. Critics argue that this reflects the government's lack of real commitment to political reform. Optimists believe that gradualism will make the current liberalization last longer than the euphoric, but ultimately failed, experiences of the past. One of China's elder statesman – who has known personally all of the country's top leaders since Mao – insisted to me that democracy has always been the "common aspiration" of the Chinese people. They are determined to get it right, he argued, but they require patience from the West. "Please let the Chinese experiment," he said. "Let us explore."

OPTIMISTS BELIEVE THAT GRADUALISM WILL MAKE THE CURRENT LIBERALIZATION LAST LONGER THAN THE EUPHORIC, BUT ULTIMATELY FAILED, EXPERIENCES OF THE PAST.

Where that exploration will lead is an open question. There is a range of views among Chinese about how long will be required for democracy to take root, but there is also some agreement. One official put it this way: "No one predicts five years. Some think ten to 15. Some say 30 to 35. And no one says 60." Others predict that the process will take at least two more generational changes in the CCP's leadership – a scenario that would place its advent around the year 2022.

In 2004, a survey was conducted among nearly 700 local officials who had attended a provincial training program. More than 60 percent of the officials polled said that they were dissatisfied with the state of democracy in the country then, and 63 percent said that political reform in China was too slow. On the other hand, 59 percent of them said that economic development should take precedence over democracy. And tellingly, 67 percent of the cadres supported popular elections for village leaders and 41 percent supported elections for county heads, compared with only 13 percent for elections for provincial governors and just 9 percent for elections for China's president.

Some Chinese like to point out that it took the United States almost two centuries to achieve universal suffrage. In the first several American presidential elections, most states restricted voting to white male landowners – no more than ten percent of the adult U.S. population at the time. Women had to wait until the twentieth century, and blacks in effect until the 1960s. "This is one issue," a Beijing newspaper editor joked, "about which we Chinese may be less patient than you Americans."

周榮
胸鄉
天谿
大包
食竇
腹哀
大橫
腹結
府舍
衝門
箕門
血海
陰陵泉
地機
漏谷
三陰交

Last spring, an article provocatively titled "Democracy Is a Good Thing" caused a small sensation in China. Published in a journal closely linked to the CCP, the article was authored by Yu Keping, the head of a think tank that reports directly to the CCP Central Committee. Although hardly blind to democracy's drawbacks (it "affords opportunities for certain sweet-talking political fraudsters to mislead the people"), Yu was forthright and specific in his approval of it: "Among all the political systems that have been invented and implemented, democracy is the one with the least number of flaws. That is to say, relatively speaking, democracy is the best political system for humankind."

CHINA MUST NOW COMPLETE THE TRANSITION FROM A SYSTEM THAT RELIES ON THE AUTHORITY AND JUDGMENT OF ONE OR A FEW DOMINATING FIGURES TO A GOVERNMENT RUN BY COMMONLY ACCEPTED AND BINDING RULES.

Yu did not predict an easy road to democracy in China. "Under conditions of democratic rule," he observed, "officials must be elected by the citizens and they must gain the endorsement and support of the majority of the people; their powers will be curtailed by the citizens, they cannot do whatever they want, they have to sit down across from the people and negotiate. Just these two points alone already make many people dislike it. Therefore, democratic politics will not operate on its own; it requires the people themselves and the government officials who represent the interests of the people to promote and implement [it]."

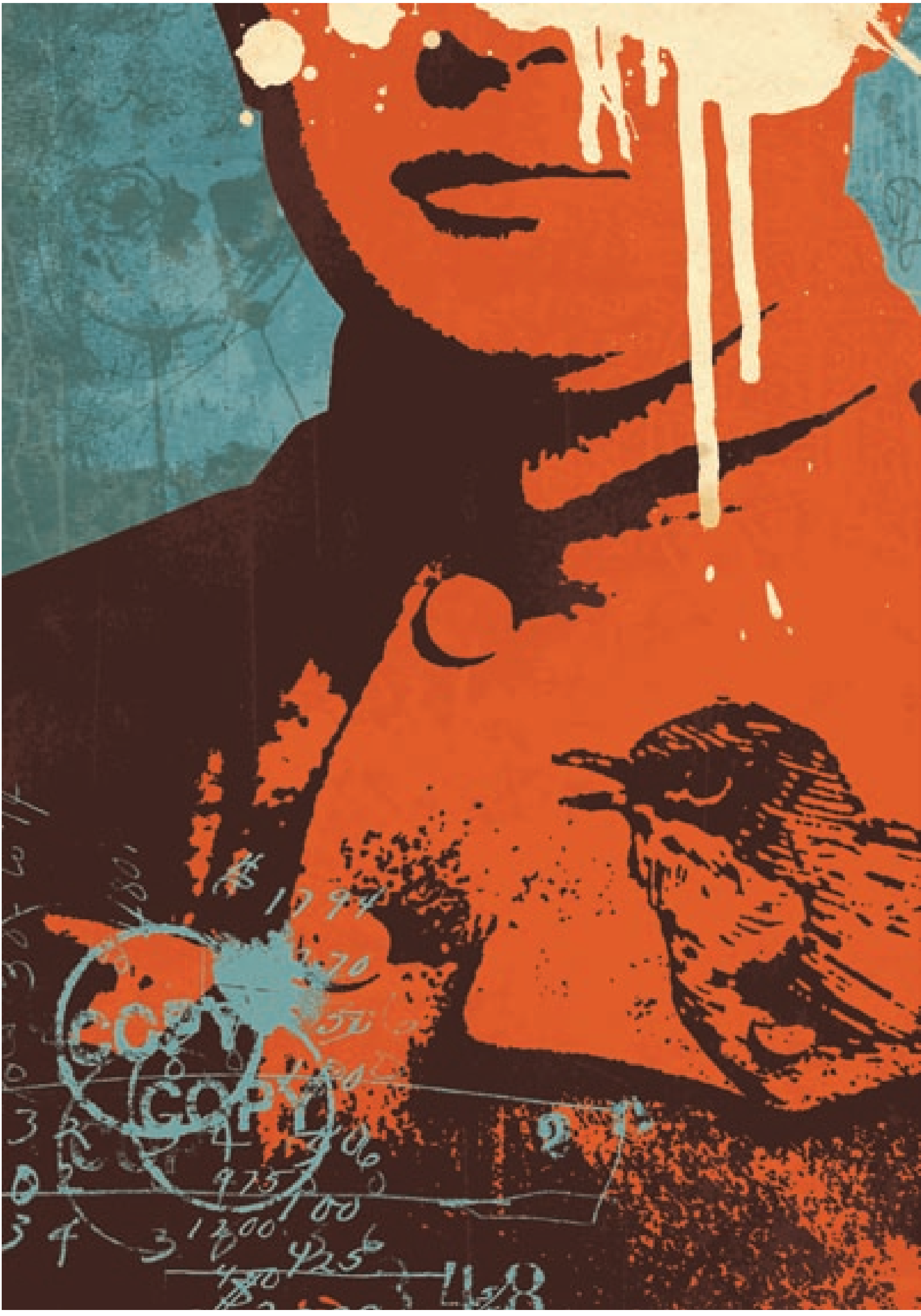
Clearly, some people at the center of the Chinese system are thinking actively about these fundamental questions. The issue is whether and how these ideas will be translated into practice. China must now complete the transition begun in recent years, from a system that relies on the authority and judgment of one or a few dominating figures to a government run by commonly accepted and binding rules. The institutionalization of power is shared by all countries that have successfully made the transition to democracy. China's ongoing experiments with local elections, reform of the judicial system, and the strengthening of oversight are all part of the shift to a more rule-based system. So are the ways in which Chinese society continues to open and diversify, incrementally creating a civil society.

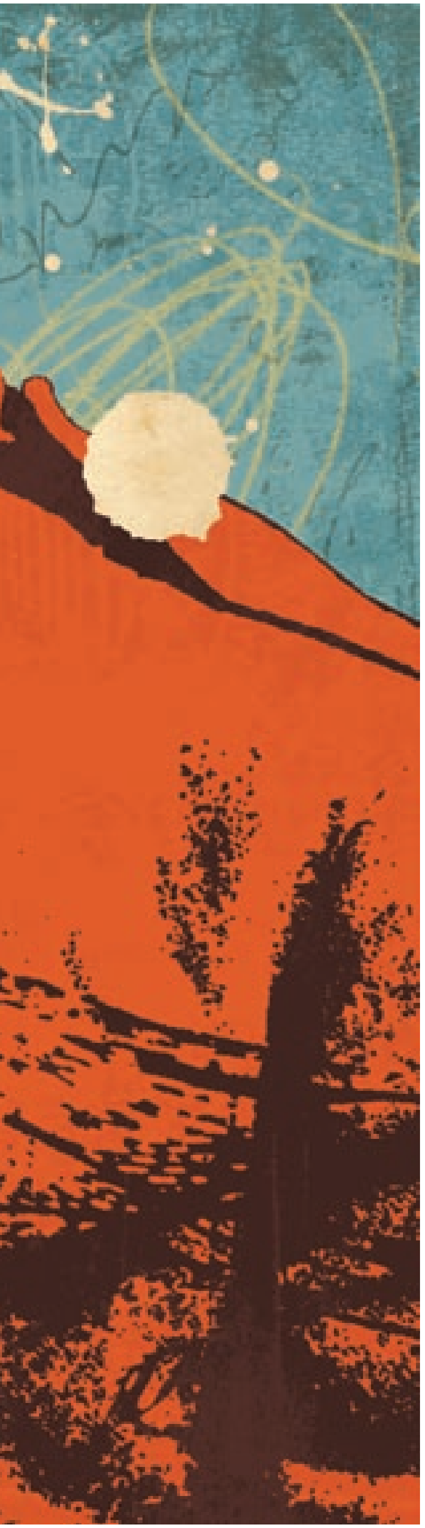
Institutionalization may progress the most over the next few years in an area that could be decisive in determining China's political evolution: leadership succession.

How a country manages the transfer of power at the very top sends an unmistakable signal to all levels below. On this point, China has already come some way. To be chosen as Mao's successor was the most perilous position one could be put in. Deng had his own problems anointing a durable successor; he remained the most powerful man in China for nearly a decade after relinquishing all his official posts in 1989. It was his successor, Jiang, who saw the first peaceful transfer of power in modern Chinese history, when he gave up his positions to Hu. Jiang has remained a power behind the scenes, but no one would suggest that he holds the influence that Deng did.

One senior leader told me that the issue of succession can no longer be managed effectively in the ad hoc manner of the past. Both China and the world have changed too much; the process of selecting the country's leaders needs to be institutionalized. The problem, he explained, was that an acceptable new process has yet to be put in place, and until one is, it would be impractical to jettison the old system. China finds itself in an ambiguous transition at the moment. For his part, this leader believed that progress might be seen by the time of the Third Plenum of the 17th Party Congress, in 2009. Some party members have even suggested that Hu's heir as general secretary of the CCP could be chosen through a vote of the entire Central Committee when Hu retires in 2012. The method by which Hu's successor is selected will be an unmistakable indicator of the political future China's current generation of leaders envisions – signaling whether they believe, as Sun did a century ago, that democracy can best deliver the prosperity, independence, and liberty for which the Chinese people have struggled and sacrificed for so many years. ■

John L. Thornton is a Professor at Tsinghua University's School of Economics and Management and its School of Public Policy and Management, in Beijing, and Director of the university's Global Leadership Program. He is also Chair of the Board of the Brookings Institution.


COPY



THE MYTH OF THE AUTHORITARIAN MODEL

HOW PUTIN'S CRACKDOWN HOLDS RUSSIA BACK

MICHAEL McFAUL AND KATHRYN STONER-WEISS

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

THE CONVENTIONAL EXPLANATION FOR VLADIMIR PUTIN'S POPULARITY IS STRAIGHTFORWARD. In the 1990s, under post-Soviet Russia's first president, Boris Yeltsin, the state did not govern, the economy shrank, and the population suffered. Since 2000, under Putin, order has returned, the economy has flourished, and the average Russian is living better than ever before. As political freedom has decreased, economic growth has increased. Putin may have rolled back democratic gains, the story goes, but these were necessary sacrifices on the altar of stability and growth.

This narrative has a powerful simplicity, and most Russians seem to buy it. Putin's approval rating hovers near 80 percent, and nearly a third of Russians would like to see him become president for life. Putin, emboldened by such adoration, has signaled that he will stay actively involved in ruling Russia in some capacity after stepping down as president this year, perhaps as prime minister to a weak president or even as president once again later on. Authoritarians elsewhere, meanwhile, have held up Putin's popularity and accomplishments in Russia as proof that autocracy has a future – that, contrary to the end-of-history claims about liberal democracy's inevitable triumph, Putin, like China's Deng Xiaoping did, has forged a model of successful market authoritarianism that can be imitated around the world.

This conventional narrative is wrong, based almost entirely on a spurious correlation between autocracy and growth. The emergence of Russian democracy in the 1990s did indeed coincide with state breakdown and economic decline, but it did not cause either. The reemergence of Russian autocracy under Putin, conversely, has coincided with economic growth but not caused it (high oil prices and recovery from the transition away from communism deserve most of the credit). There is also very little evidence to suggest that Putin's autocratic turn over the last several years has led to more effective governance than the fractious democracy of the 1990s. In fact, the reverse is much closer to the truth: to the extent that Putin's centralization of power has had an influence on governance and economic growth at all, the effects have been negative. Whatever the apparent gains of Russia under Putin, the gains would have been greater if democracy had survived.

POLITICAL THERMIDOR

The process of democratization started before Russian independence. In the years leading up to the collapse of the Soviet Union, Mikhail Gorbachev began to introduce important reforms, including competitive elections for many national and local offices, pluralism in the media (even when still state-owned), and freedom of association for political and civic groups. After 1991, Russia started developing all the basic elements of an electoral democracy. There were competitive elections for parliament and the presidency and mostly competitive elections for regional governors. Political parties of all stripes, including opposition communist and ultranationalist groups, operated freely, as did nongovernmental organizations (NGOs). Electronic and print media outlets not controlled by the state multiplied. So vibrant was the political opposition that Yeltsin twice faced possible impeachment by the Communists in the Duma, Russia's lower house of parliament. Deep divisions among national officials, regional governors, oligarchs,

ALTHOUGH THE FORMAL INSTITUTIONAL CONTOURS OF THE RUSSIAN POLITICAL SYSTEM HAVE NOT CHANGED MARKEDLY UNDER PUTIN, THE ACTUAL DEMOCRATIC CONTENT HAS ERODED CONSIDERABLY.

and media outlets made the 1999 parliamentary election the most competitive contest in Russian history.

Yeltsin was far from a perfect democrat: he used force to crush the Russian parliament in 1993, bulldozed into place a new constitution that increased presidential power, and barred some parties or individuals from competing in a handful of national and regional elections. He also initiated two wars in Chechnya. The system that Yeltsin handed over to Putin lacked many key attributes of a liberal democracy. Still, whatever its warts, the Russian regime under Yeltsin was unquestionably more democratic than the Russian regime today. Although the formal institutional contours of the Russian political system have not changed markedly under Putin, the actual democratic content has eroded considerably.

Putin's rollback of democracy started with independent media outlets. When he came to power, three television networks had the national reach to really count in Russian politics – RTR, ORT, and NTV. Putin tamed all three. RTR was already fully state-owned, so reining it in was easy. He acquired control of ORT, which had the biggest national audience, by running its owner, the billionaire Boris Berezovsky, out of the country. Vladimir Gusinsky, the owner of NTV, tried to fight Putin's effective takeover of his channel, but he ended up losing not only NTV but also the newspaper Segodnya and the magazine Itogi when prosecutors pressed spurious charges against him. In 2005, Anatoly Chubais, the CEO of RAO UES (Unified Energy Systems of Russia) and a leader in the liberal party SPS (Union of Right Forces), was compelled to hand over another, smaller private television company, REN-TV, to Kremlin-friendly oligarchs. Today, the Kremlin controls all the major national television networks.

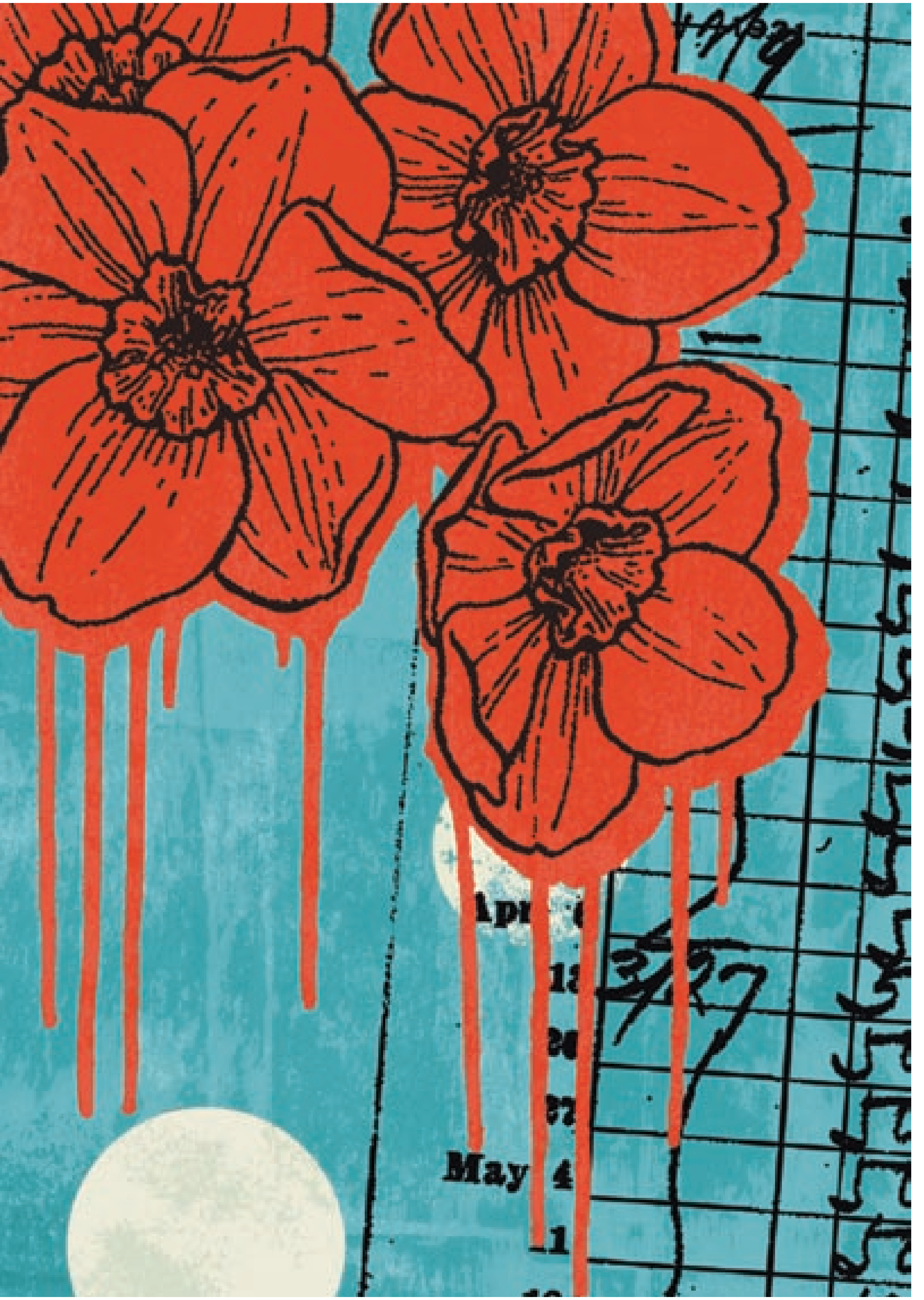
More recently, the Kremlin has extended its reach to print and online media, which it had previously left alone. Most major Russian national newspapers have been sold in the last several years to individuals or companies loyal to the Kremlin, leaving the Moscow weekly, Novaya Gazeta, the last truly independent national newspaper. On the radio, the station Ekho Moskvy remains an independent source of news, but even its future is questionable. Meanwhile, Russia now ranks as the third-most-dangerous place in the world to be a journalist, behind only Iraq and Colombia. Reporters Without Borders has counted 21 journalists murdered in Russia since 2000, including Anna Politkovskaya, the country's most courageous investigative journalist, in October 2006.

Putin has also reduced the autonomy of regional governments. He established seven supraregional districts headed primarily by former generals and KGB officers. These seven new super governors were assigned the task of taking control of all the federal agencies in their jurisdictions, many of which had developed affinities with the regional governments during the Yeltsin era. They also began investigating regional leaders as a way of undermining their autonomy and threatening them into subjugation.

RUSSIA NOW RANKS AS THE THIRD MOST DANGEROUS PLACE IN THE WORLD TO BE A JOURNALIST, BEHIND ONLY IRAQ AND COLOMBIA. REPORTERS WITHOUT BORDERS HAS COUNTED 21 JOURNALISTS MURDERED IN RUSSIA SINCE 2000.

Putin emasculated the Federation Council, the upper house of Russia's parliament, by removing elected governors and heads of regional legislatures from the seats they would have automatically taken in this chamber and replacing them with appointed representatives. Regional elections were rigged to punish leaders who resisted Putin's authority. And in September 2004, in a fatal blow to Russian federalism, Putin announced that he would begin appointing governors – with the rationale that this would make them more accountable and effective. There have been no regional elections for executive office since February 2005.

Putin has also made real progress in weakening the autonomy of the parliament. Starting with the December 2003 parliamentary elections, he has taken advantage of his control of other political resources (such as NTV and the regional governorships) to give the Kremlin's party, United Russia, a strong majority in the Duma: United Russia and its allies now control two-thirds of the seats in parliament. Putin's own popularity may be United Russia's greatest electoral asset, but constant positive coverage of United Russia leaders (and negative coverage of Communist Party officials) on Russia's national television stations, overwhelming financial support from Russia's oligarchs, and near-unanimous endorsement by Russia's regional leaders have also helped. After the December 2003 elections, for the first time ever the Organization for Security and Cooperation in Europe issued a critical report on Russia's parliamentary elections,



May 4

which stressed, "The State Duma elections failed to meet many OSCE and Council of Europe commitments for democratic elections." In 2007, the Russian government refused to allow the OSCE to field an observer mission large enough to monitor the December parliamentary elections effectively.

Political parties not aligned with the Kremlin have also suffered. The independent liberal parties, Yabloko and the SPS, as well as the largest independent party on the left, the Communist Party of the Russian Federation, are all much weaker today and work in a much more constrained political environment than in the 1990s. Other independent parties – including the Republican Party and the Popular Democratic Union, as well as those of the Other Russia coalition – have not even been allowed to register for elections. Several independent parties and candidates have been disqualified from participating in local elections for blatantly political reasons. Potential backers of independent parties have been threatened with sanctions. The imprisonment of Mikhail Khodorkovsky, previously Russia's wealthiest man and owner of the oil company Yukos, sent a powerful message to other businesspeople about the costs of being involved in opposition politics. Meanwhile, pro-Kremlin parties – including United Russia, the largest party in the Duma, and A Just Russia, a Kremlin invention – have enjoyed frequent television coverage and access to generous resources.

In his second term, Putin decided that NGOs could become a threat to his power. He therefore promulgated a law that gives the state numerous means to harass, weaken, and even close down NGOs considered too political. To force independent groups to the margins, the Kremlin has generously funded NGOs either invented by or fully loyal to the state. Perhaps most incredible, public assembly is no longer tolerated. In the spring of 2007, Other Russia, a coalition of civil-society groups and political parties led by the chess champion Garry Kasparov, tried to organize public meetings in Moscow and St. Petersburg. Both meetings were disrupted by thousands of police officers and special forces, and hundreds of demonstrators were arrested – repression on a scale unseen in Russia in 20 years.

In his annual address to the Federation Assembly in April 2007, Putin struck a note of paranoid nationalism when he warned of Western plots to undermine Russian sovereignty. "There is a growing influx of foreign cash used directly to meddle in our domestic affairs," he asserted. "Not everyone likes the stable, gradual rise of our country. Some want to return to the past to rob the people and the state, to plunder natural resources, and deprive our country of its political and economic independence." The Kremlin, accordingly, has tossed out the Peace Corps, closed OSCE missions in Chechnya and then in Moscow, declared persona non grata the AFL-CIO's field representative, raided the offices of the Soros Foundation and the National Democratic Institute, and forced Internews Russia, an NGO dedicated to fostering journalistic professionalism, to close its offices after accusing its director of embezzlement.

While weakening checks on presidential power, Putin and his team have tabled reforms that might have strengthened other branches of the government. The judicial system remains weak, and when major political issues are at stake, the courts serve as yet another tool of presidential power – as happened during NTV's struggle and during the prosecution of Khodorkovsky. There was even an attempt to disbar one of Khodorkovsky's lawyers, Karinna Moskalenko.

BIGGER IS NOT BETTER

Many of Putin's defenders, including some Kremlin officials, have given up the pretense of characterizing Russia as a "managed" or "sovereign" democracy. Instead, they contend that Russia's democratic retreat has enhanced the state's ability to provide for its citizens. The myth of Putinism is that Russians are safer, more secure, and generally living better than in the 1990s – and that Putin himself deserves the credit. In the 2007 parliamentary elections, the first goal of "Putin's Plan" (the main campaign document of United Russia) was to "provide order."

In fact, although the 1990s was a period of instability, economic collapse, and revolutionary change in political and economic institutions, the state performed roughly as well as it does today, when the country has been relatively "stable" and its economy is growing rapidly. Even in good economic times, autocracy has done no better than democracy at promoting public safety, health, or a secure legal and property-owning environment.

The Russian state under Putin is certainly bigger than it was before. The number of state employees has doubled to roughly 1.5 million. The Russian military has more capacity to fight the war in Chechnya today, and the coercive branches of the government – the police, the tax authorities, the intelligence services – have bigger budgets than they did a decade ago. In some spheres, such as paying pensions and government salaries on time, road building, or educational spending, the state is performing better now than during the 1990s. Yet given the growth in its size and resources, what is striking is how poorly the Russian state still performs. In terms of public safety, health, corruption, and the security of property rights, Russians are actually worse off today than they were a decade ago.

Security, the most basic public good a state can provide for its population, is a central element in the myth of Putinism. In fact, the frequency of terrorist attacks in Russia


HOME
OF THE

has increased under Putin. The two biggest terrorist attacks in Russia's history – the Nord-Ost incident at a theater in Moscow in 2002, in which an estimated 300 Russians died, and the Beslan school hostage crisis, in which as many as 500 died – occurred under Putin's autocracy, not Yeltsin's democracy. . . .

Nor has public health improved in the last eight years. Despite all the money in the Kremlin's coffers, health spending averaged 6 percent of GDP from 2000 to 2005, compared with 6.4 percent from 1996 to 1999. Russia's population has been shrinking since 1990, thanks to decreasing fertility and increasing mortality rates, but the decline has worsened since 1998. . . . Life expectancy in Russia rose between 1995 and 1998. Since 1999, however, it has declined to 59 years for Russian men and 72 for Russian women.

At the same time that Russian society has become less secure and less healthy under Putin, Russia's international rankings for economic competitiveness, business friendliness, and transparency and corruption all have fallen. The Russian think tank INDEM estimates that corruption has skyrocketed in the last six years. In 2006, Transparency International ranked Russia at an all-time worst of 121st out of 163 countries on corruption, putting it between the Philippines and Rwanda. Russia ranked 62nd out of 125 on the World Economic Forum's Global Competitiveness Index in 2006, representing a fall of nine places in a year. On the World Bank's 2006 "ease of doing business" index, Russia ranked 96th out of 175, also an all-time worst.

Property rights have also been undermined. Putin and his Kremlin associates have used their unconstrained political powers to redistribute some of Russia's most valuable properties. The seizure and then reselling of Yukos' assets to the state-owned oil company Rosneft was the most egregious case, not only diminishing the value of Russia's most profitable oil company but also slowing investment (both foreign and domestic) and sparking capital flight. State pressure also compelled the owners of the private Russian oil company Sibneft to sell their stakes to the state-owned Gazprom and Royal Dutch/Shell to sell a majority share in its Sakhalin-2 project (in Siberia) to Gazprom. Such transfers have transformed a once private and thriving energy sector into a state-dominated and less efficient part of the Russian economy. The remaining three private oil producers – Lukoil, TNK-BP, and Surgutneftegaz – all face varying degrees of pressure to sell out to Putin loyalists. Under the banner of a program called "National Champions," Putin's regime has done the same in the aerospace, automobile, and heavy-machinery industries. The state has further discouraged investment by arbitrarily enforcing environmental regulations against foreign oil investors, shutting out foreign partners in the development of the Shtokman gas field, and denying a visa to the largest portfolio investor in Russia, the British citizen William Browder. Most

World Bank governance indicators, on issues such as the rule of law and control of corruption, have been flat or negative under Putin. Those on which Russia has shown some improvement in the last decade, especially regulatory quality and government effectiveness, started to increase well before the Putin era began....

A EURASIAN TIGER?

The second supposed justification for Putin's autocratic ways is that they have paved the way for Russia's spectacular economic growth. As Putin has consolidated his authority, growth has averaged 6.7 percent – especially impressive against the backdrop of the depression in the early 1990s. The last eight years have also seen budget surpluses, the eradication of foreign debt and the accumulation of massive hard-currency reserves, and modest inflation. The stock market is booming, and foreign direct investment, although still low compared to in other emerging markets, is growing rapidly. And it is not just the oligarchs who are benefiting from Russia's economic upturn. Since 2000, real disposable income has increased by more than 10 percent a year, consumer spending has skyrocketed, unemployment has fallen from 12 percent in 1999 to 6 percent in 2006, and poverty, according to one measure, has declined from 41 percent in 1999 to 14 percent in 2006. Russians are richer today than ever before.

The correlations between democracy and economic decline in the 1990s and autocracy and economic growth in this decade provide a seemingly powerful excuse for shutting down independent television stations, canceling gubernatorial elections, and eliminating pesky human rights groups. These correlations, however, are mostly spurious.

The 1990s were indeed a time of incredible economic hardship. After Russia's formal independence in December 1991, GDP contracted over seven years. There is some evidence that the formal measures of this contraction overstated the extent of actual economic depression: for instance, purchases of automobiles and household appliances rose dramatically, electricity use increased, and all of Russia's major cities experienced housing booms during this depression. At the same time, however, investment remained flat, unemployment ballooned, disposable incomes dropped, and poverty levels jumped to more than 40 percent after the August 1998 financial meltdown.

Democracy, however, had only a marginal effect on these economic outcomes and may have helped turn the situation around in 1998. For one thing, the economic decline preceded Russian independence. Indeed, it was a key cause of the Soviet collapse. With the Soviet collapse, the drawing of new borders to create 15 new states in 1991 triggered massive trade disruptions. And for several months after independence, Russia did not even control the printing and distribution of its own currency. Neither a more democratic polity nor a robust dictatorship would have altered the negative economic consequences of these structural forces in any appreciable way.

Economic decline after the end of communism was hardly confined to Russia. It followed communism's collapse in every country throughout the region, no matter what the regime type. In the case of Russia, Yeltsin inherited an economy that was already in the worst nonwartime economic depression ever. Given the dreadful economic conditions, every postcommunist government was compelled to pursue some degree of price and trade liberalization, macroeconomic stabilization, and, eventually, privatization. The speed and comprehensiveness of economic reform varied, but even those leaders most resistant to capitalism implemented some market reforms. During this transition, the entire region experienced economic recession and then began to recover several years after the adoption of reforms. Russia's economy followed this same general trajectory – and would have done so under dictatorship or democracy. Russia's economic depression in the 1990s was deeper than the region's average, but that was largely because the socialist economic legacy was worse in Russia than elsewhere.

ECONOMIC DECLINE AFTER THE END OF COMMUNISM WAS HARDLY CONFINED TO RUSSIA. IT FOLLOWED COMMUNISM'S COLLAPSE IN EVERY COUNTRY THROUGHOUT THE REGION, NO MATTER WHAT THE REGIME TYPE.

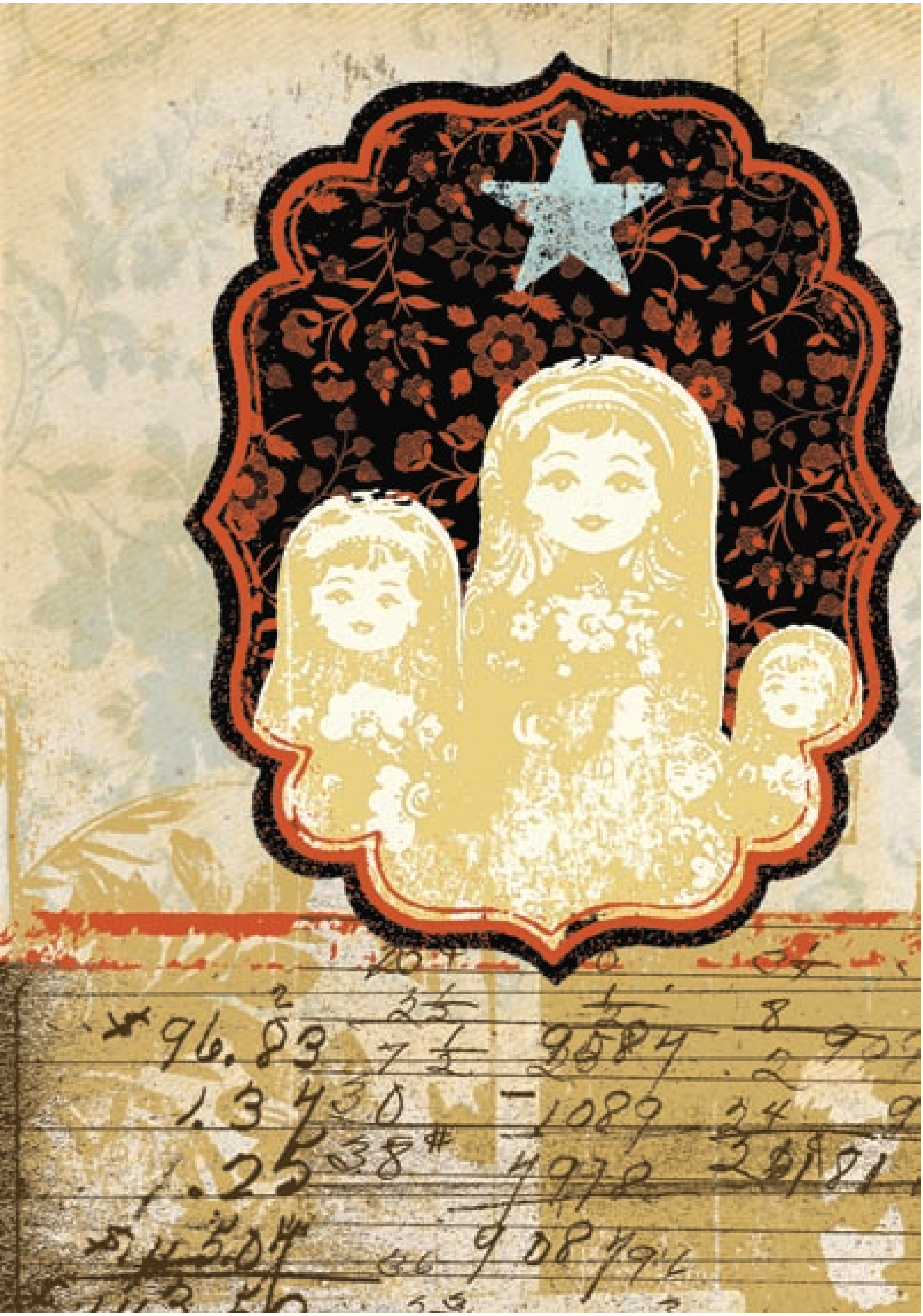
After the Soviet collapse, Russian leaders did have serious policy choices to make regarding the nature and speed of price and trade liberalization, privatization, and monetary and fiscal reforms. This complex web of policy decisions was subsequently oversimplified as a choice between "shock therapy" (doing all of these things quickly and simultaneously) and "gradual reform" (implementing the same basic menu of policies slowly and in sequence). Between 1992 and 1998, Russian economic policy zigzagged between these two extremes, in large part because Russian elites and Russian society did not share a common view about how to reform the economy.

Because Russia's democratic institutions allowed these ideological debates to play out politically, economic reform was halting, which in turn slowed growth for a time. During Russia's first two years of independence, for example, the constitution gave the Supreme Soviet authority over the Central Bank, an institutional arrangement that produced inflationary monetary policy. The new 1993 constitution fixed this problem by making the bank a more autonomous institution, but the new constitution reaffirmed the parliament's pivotal role in approving the budget, which led to massive budget deficits throughout the 1990s. The Russian government covered these deficits through government bonds and foreign borrowing, which worked while oil prices were high. But when oil prices collapsed in 1997-98, so, too, did Russia's financial system. In August 1998, the government essentially went bankrupt. It first radically devalued the ruble as a way to reduce domestic debt and then simply defaulted on billions of outstanding loans to both domestic and foreign lenders.

This financial meltdown finally put an end to major debate over economic policy in Russia. Because democratic institutions still mattered, the liberal government responsible for the financial crash had to resign, and the parliament compelled Yeltsin to appoint a left-of-center government headed by Prime Minister Yevgeny Primakov. The deputy prime minister in charge of the economy in Primakov's government was a Communist Party leader. Now that they were in power, Primakov and his government had to pursue fiscally responsible policies, especially as no one would lend to the Russian government. So these "socialists" slashed government spending and reduced the state's role in the economy. In combination with currency devaluation, which reduced imports and spurred Russian exports, Russia's new fiscal austerity created the permissive conditions for real economic growth starting in 1999. And so began Russia's economic turnaround – before Putin came to power and well before autocracy began to take root.

First as prime minister and then as president, Putin stuck to the sound fiscal policies that Primakov had put in place. After competitive elections in December 1999, pro-reform forces in parliament even managed to pass the first balanced budget in post-Soviet Russian history. In cooperation with parliament, Putin's first government dusted off and put into place several liberal reforms drafted years earlier under Yeltsin, including a flat income tax of 13 percent, a new land code (making it possible to own commercial and residential land), a new legal code, a new regime to prevent money laundering, a new regime for currency liberalization, and a reduced tax on profits (from 35 percent to 24 percent).

Putin's real stroke of luck came in the form of rising world oil prices. Worldwide, prices began to climb in 1998, dipped again slightly from 2000 to 2002, and have continued to increase ever since, approaching $100 a barrel. Economists debate what fraction of Russia's economic growth is directly attributable to rising commodity prices, but all agree that the effect is extremely large. Growing autocracy inside Russia obviously did not cause the rise in oil and gas prices. If anything, the causality runs in the opposite direction: increased energy revenues allowed for the return to autocracy. With so much money from oil windfalls in the Kremlin's coffers, Putin could crack



down on or co-opt independent sources of political power; the Kremlin had less reason to fear the negative economic consequences of seizing a company like Yukos and had ample resources to buy off or repress opponents in the media and civil society.

IN THE ECONOMIC-GROWTH RACE IN THE DEVELOPING WORLD, AUTOCRACIES ARE BOTH THE HARES AND THE SNAILS, WHEREAS DEMOCRACIES ARE THE TORTOISES – SLOWER BUT STEADIER.

If there is any causal relationship between authoritarianism and economic growth in Russia, it is negative. Russia's more autocratic system in the last several years has produced more corruption and less secure property rights – which, as studies by the World Bank and the European Bank for Reconstruction and Development demonstrate, tend to hinder growth in the long run. Asset transfers have transformed a thriving private energy sector into one that is effectively state-dominated (private firms accounted for 90 percent of Russian oil production in 2004; they account for around 60 percent today) and less efficient. Renationalization has caused declines in the performance of formerly private companies, destroyed value in Russia's most profitable companies, and slowed investment, both foreign and domestic. Before Khodorkovsky's arrest, Yukos was Russia's most successful and transparent company, with a market value of $100 billion in today's terms. The redistribution of Yukos' properties not only reduced the value of these assets by billions of dollars but also dramatically slowed the company's oil production. Sibneft's value and production levels have experienced similar falls since the company became part of Gazprom. Meanwhile, companies, such as Gazprom, that have remained under state control since independence continue to perform below market expectations, with their management driven as much by political objectives as by profit maximization.

Perhaps the most telling evidence that Putin's autocracy has hurt rather than helped Russia's economy is provided by regional comparisons. Strikingly, even with Russia's tremendous energy resources, growth rates under Putin have been below the post-Soviet average. In 2000, the year Putin was elected president, Russia had the second-fastest-growing economy in the post-Soviet region, behind only gas-rich Turkmenistan. By 2005, however, Russia had fallen to 13th in the region, outpacing only Ukraine and Kyrgyzstan, both of which were recovering from "color revolutions." Between 1999 and 2006, Russia ranked ninth out of the 15 post-Soviet countries in terms of average growth. Similarly, investment in Russia, at 18 percent of GDP, although stronger today than ever before, is well below the average for democracies in the region.

One can only wonder how fast Russia would have grown with a more democratic system. The strengthening of institutions of accountability – a real opposition party, genuinely independent media, a court system not beholden to Kremlin control – would have helped tame corruption and secure property rights and would thereby have encouraged more investment and growth. The Russian economy is doing well today, but it is doing well in spite of, not because of, autocracy....

Kremlin officials and their public-relations operatives frequently evoke China as a model: a seemingly modernizing autocracy that has delivered an annual growth rate over ten percent for three decades. China is also an undisputed global power, another attribute that Russian leaders admire and want to emulate. If China is supposed to be Exhibit A in the case for a new model of successful authoritarianism, the Kremlin wants to make Russia Exhibit B.

Identifying China as a model – instead of the United States, Germany, or even Portugal – already sets the development bar much lower than it was just a decade ago. China remains an agrarian-based economy with per capita GDP below $2,000 (about a third of Russia's and a 15th of Germany's). But the China analogy is also problematic because sustained high growth under autocracy is the exception, not the rule, around the world. For every China, there is an autocratic developmental disaster such as the Democratic Republic of the Congo; for every authoritarian success such as Singapore, there is a resounding failure such as Myanmar; for every South Korea, a North Korea. In the economic-growth race in the developing world, autocracies are both the hares and the snails, whereas democracies are the tortoises – slower but steadier. On average, autocracies and democracies in the developing world have grown at the same rate for the last several decades.... ■

Michael McFaul is a Hoover Fellow, Professor of Political Science, and Director of the Center on Democracy, Development, and the Rule of Law at Stanford University.

Kathryn Stoner-Weiss is Associate Director for Research and Senior Research Scholar at the Center on Democracy, Development, and the Rule of Law at Stanford University.

Platinum®
CAPITAL LIMITED
ABN 51 063 975 431

Directors
Graeme Galt
Peter Clarke
Bruce Coleman
Kerr Neilson
Andrew Clifford
Malcolm Halstead

Secretary
Malcolm Halstead

Investment Manager
Platinum Investment Management Limited

Shareholder Liaison
Liz Norman

Registered Office
Level 8, 7 Macquarie Place
Sydney NSW 2000
Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500
Fax +61 2 9254 5555

Share Registrars
Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Phone 1300 855 080 (Australia only)
Phone +61 3 9415 4000
Fax +61 3 9473 2500

Auditors and Taxation Advisors
PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

Solicitors
Allens Arthur Robinson
Level 28, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000

Securities Exchange Listing
Ordinary Shares listed on the Australian Securities Exchange
ASX Code: **PMC**

Website
http://www.platinumcapital.com.au

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

2008 ANNUAL REPORT

CONTENTS

2 Chairman's Report
4 Investment Manager's Report
14 Shareholder Information
18 Directors' Report
25 Auditor's Independence Declaration
26 Corporate Governance Statement
36 Income Statement
37 Balance Sheet
38 Statement of Changes in Equity
39 Cash Flow Statement
40 Notes to the Financial Statements
71 Directors' Declaration
72 Independent Audit Report

INVESTMENT PERFORMANCE

In the year ending on 30 June 2008, Platinum Capital's net asset value decreased by 17.2% pre-tax and by 13.8% after allowing for all tax liabilities, both realised and unrealised. For a comparison the benchmark Morgan Stanley Capital Index fell 19.8% for the 12 months.

This short-term performance should be seen in the context of the long-term results which are more than satisfactory. Since its inception in 1994 the compound annual appreciation of the Company's assets on a pre-tax basis has been 13.4% compared to the return from the MSCI of 5.9%. The comparable return from the Australian All Ordinaries Accumulation Index has been 11.5% annually over the 14 years.

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

	1 YEAR	3 YEARS (COMPOUND PA)	5 YEARS (COMPOUND PA)	SINCE INCEPTION (14 YEARS COMPOUND PA)	SINCE INCEPTION (CUMULATIVE)
PCL	-17.2	3.3	6.6	13.4	482.6
MSCI*	-19.8	2.1	5.3	5.9	122.4

*Morgan Stanley Capital International All Country World Net Index
Source: Platinum and Factset

CORPORATE GOVERNANCE – INTERNATIONAL ACCOUNTING STANDARDS

This Annual Report is prepared under Australian International Financial Reporting Standards, and therefore recorded profits or losses will be much more variable, as changes in the market value of the Company's total assets are reflected through the profit and loss account. This year we see realised profits of $12.8m being booked together with an unrealised market value movement of -$47.2m.

The longer-term movement of asset values, combined with the flow of dividends, is a better measure of the performance of a listed investment company.

DIVIDENDS

A fully franked final dividend of 5 cents per share is recommended making 10 cents for the full year. This is a reduction from last year when we paid a final of 10 cents per share making a total for that year of 15 cents. In the light of the unrealised losses incurred during the second half through the application of the accounting rule of marking to market, this final dividend represents a continuation of our policy of smoothing.

The Company is now in a position of having paid out virtually all of its retained earnings. Further dividend payments will, therefore, have to be entirely governed by future earnings.

ENVIRONMENT

The Manager continues to report that it is carbon neutral (as is your Company), having purchased carbon credits to offset its carbon emissions. The Manager reports that it has reduced its level of carbon emissions this year and strives toward further reductions.

OUTLOOK FOR 2008 – 2009

The Manager makes it clear in its Report that whilst its “frequently expressed concerns about excessive liquidity, over-borrowing and the weak US dollar all proved perceptive”, we sometimes acted on them too early. The Manager currently has a high level of confidence in owning “a group of very stable and well-run companies whose valuations are well below their longer-term averages”. It believes that, “We are relatively well-placed with our shorts in emerging markets, small caps and cyclicals”.

FINALLY

As in past years, I do commend reading the Manager’s Report for its insights and a better understanding of the depth of analysis behind the investment decisions made by the Manager.

Finally, I wish to express my appreciation of the efforts of the people at Platinum Asset Management along with those of my fellow Directors.

GRAEME GALT
Chairman

PERFORMANCE

Markets have been very challenging since evidence of the excesses of the credit cycle first came to light in May 2007. In the most recent quarter there has been a division between those companies that are seen as beneficiaries of continued growth in the developing world and those that are on the receiving end of the credit unravelling. Stock markets have seen the commodity and resource producers continue to roll while the financials have slumped.

A clear distinction has been less evident at the country level where the developed and developing markets have moved in similar ways. Striking exceptions were Brazil and Russia, where energy and resources predominate, with companies like Vale, Petrobras and Gazprom soaring. China and India have lost their lustre to tightening credit and inflation pressures.

Tables of global regional and sector returns are shown below.

MSCI* World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
United Kingdom	-6%	-23%
India	-24%	-23%
Korea	-12%	-23%
US	-7%	-23%
Japan	-3%	-22%
France	-9%	-22%
Germany	-7%	-17%
Australia	-1%	-14%
Hong Kong	-9%	-9%
Emerging Markets	-6%	-8%
Brazil	13%	36%

* Morgan Stanley Capital International
Source: MSCI

MSCI* World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Financials	-16%	-38%
Consumer Discretionary	-13%	-33%
Industrials	-11%	-22%
Health Care	-5%	-19%
Information Technology	-4%	-19%
Telecommunications	-8%	-18%
Consumer Staples	-11%	-13%
Utilities	-2%	-7%
Materials	4%	4%
Energy	12%	9%

* Morgan Stanley Capital International
Source: MSCI

Your Company's performance has fluctuated. While doing better than the MSCI World Index for the year at -17.2% (pre-tax) versus -19.8%, our absence from resource companies and our currency allocation were detrimental to performance over the last three months (-8.7% pre-tax versus -6.4% for the index). As regard currencies, had we joined the momentum brigade and loudly proclaimed "stronger for longer" over this period we would have done better. This slogan is likely to be tested in coming months but recently it has held the Australian dollar, where we are underweight, high. It has also reduced the potency of our shorts. While underlying stocks in Japan are showing resilience the currency has sold-off.

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

30 APRIL 2008	31 MAY 2008	30 JUNE 2008
138.81	138.17	128.69

Source: Platinum

CURRENCIES

While the Yuan continued its climb, rising by 10% versus the US dollar over the year, the other Asian currencies lost momentum and those without natural protection against the rising oil price started to sag. This was detrimental to our position as we had expected them to move-up with the Yuan so these holdings have now been cut. Further, the Australian dollar tilted higher as investors paid more heed to revised expectations about this country's current account deficit in the light of its strong iron ore, coal and natural gas industries. We ended the quarter with only 8% long the Australian dollar and with most of our physical share holdings being carried in their underlying currencies. We remain of the view that the US dollar is bottoming, perverse as this may seem, as competitiveness is now trending in that currency's favour.

SHORTING

Throughout the quarter we have progressively moved the shorts towards those areas that are bloated by expectations of growth. These include some emerging markets such as Brazil, steel companies, small caps and reits (real estate investment trusts); only in the last days of the quarter did these bastions of hope for growth start to fall, a movement which has accelerated into July.

PORTFOLIO CHANGES

Geographical Disposition of Platinum Assets

REGION	JUN 2008	MAR 2008
North America	24%	24%
Europe	23%	23%
Emerging Markets	20%	21%
Japan	19%	20%
Cash	14%	12%
Shorts	28%	31%

Source: Platinum

Platinum Capital Limited – Top 20 Stocks

STOCK	INDUSTRY	JUN 08
Microsoft	Technology	3.2%
Mitsubishi Tokyo Financial	Financial	3.0%
Hutchison Whampoa	Telco/Transport	2.9%
Siemens	Electrical	2.7%
Bombardier	Transport	2.7%
International Paper	Paper	2.3%
Samsung Electronics	Electrical	2.1%
Cisco Systems	Technology	2.1%
Hornbach Baumarkt	Retail	1.8%
Denso Corp	Auto	1.8%
Johnson & Johnson	Health Care	1.8%
JGC Corp	Construction	1.8%
SAP	Technology	1.7%
Henderson Land Development	Property	1.7%
Sanofi-Aventis	Health Care	1.6%
Polaris Securities	Financials	1.6%
Pernod Ricard	Beverage	1.6%
Bangkok Bank	Financial	1.5%
Newmont Mining	Mining	1.5%
BMW	Auto	1.5%

Source: Platinum

Strong relative moves during the quarter gave us the opportunity to rebalance several holdings. In particular we cut back on our positions in the Bank of China, Sony and Bombardier, all of which rose by 20 to 30%. We consolidated holdings by selling Oracle for more SAP (IT business systems) and Chiyoda for more JGC (constructors of refineries and LNG plants). In other cases we exited companies that had held-up relatively well but which now look less attractive in a relative sense; Yamato and Rohm were used to fund initial stakes in the highly oil-punished segment of airlines and aircraft support. Other activities were to exchange Pfizer for Sanofi-Aventis and to sell the regional banks in Japan for the two largest city banks.

At a time when most banks have been revealed as under-capitalised and having weak deposit bases, one of the world's biggest banks with the opposite characteristics, is selling at book value. Mitsubishi-UFJ Financial Group has been recapitalised and has a loan to deposit ratio of 75%. Furthermore, for the first time in years it is trading in an environment of rising prices and has the prospect of repricing and expanding its loan book at relatively low risk. In addition, the completion of its IT integration is anticipated to give rise to substantial cost savings. Should the Japanese public change their stance to equities in the face of a deteriorating environment for bonds, the company would get the additional boost from transactional fees and commissions. There is little need to try to pick the low point of the share prices of the western financials when this stock is both cheaper and more soundly based.

The pharmaceutical sector is being punished due to concerns about gaps in the pipeline for new drugs. Sanofi-Aventis has been caught up in this general downgrading and is trading at under eight times earnings. If you strip out the safe and steady vaccine business, the balance of activities is capitalised at approximately Eu43bn which should be covered by cash flow from those activities over no more than the next five years. The R&D pipeline, into which the company has recently been investing Eu4.5bn annually, is apparently being valued by the market at zero. There are other good things to be said but the above figures alone are a sufficient indication that Sanofi's current rating is strongly characteristic of value and neglect.

COMMENTARY

Trying to evaluate markets each day is like watching a giant kaleidoscope. Against a dull background there will nearly always be one vividly bright and interesting sector. For a while this particular area generates a massive volume of comment accompanied by extraordinary market activity and volatility. Then, more or less unexpectedly, a new brilliance emerges to command attention while the old one fades away.

We do our very best to avoid short-termism and to maintain a balanced view. We are obliged, however, because we necessarily interact with the other market participants, constantly to take account of the intensity and likely durability of the mass reaction to each emergent spectacular. Last week it was securitisation, credit default swaps and bank solvency. This week it is oil and agriculture prices and inflation. Next week, well, that is the big question.

It is a constant balancing act. How much attention should be paid to the past, to what extent can we anticipate the future and when and by how much do we deweight the present but transient?

Many fund managers would today be concerned about whether they have "*enough exposure to oil plays*". The trouble here is that oil has doubled in the last 12 months. We in fact first wrote about the impending boom in the oil price in June 2003 (http://www.platinum.com.au/images/drops.pdf). It is not really "breaking news". Nevertheless, if one were a momentum fund manager it would bear heavily on one's behaviour. The skill we require is to correctly gauge the tone of the market as we buy or sell the shares that we do or don't favour, while neither being too anticipatory nor too hesitant.

At present the market's focus seems to be on:

Growth

Developed economies are slowing to a snail's pace. Developing markets continue to grow but are threatened by rising inflation and, in some cases, the adverse effects of "managed" currencies.

Inflation

The deflationary pulse from China/Asia is reversing. There have been some unpleasant surprises regarding input costs and the movements of wages in Asia/Russia and other developing regions. Agricultural prices may ease but, on account of the fundamental repricing of energy, it is unlikely that they will fall back below the current trading range. Energy prices should stay elevated as demand destruction in developed countries (eg. dramatic shifts to public transport and other measures) is offset by developing world growth. There is very little tolerance in global supply to cope with incidents such as the Japanese nuclear generator fleet being taken offline, causing extra demand for oil of 350,000 barrels per day.

Profits

Forward earnings are likely to sag in the face of weaker demand and strong cost pressures.

Credit

Banks are being recapitalised but the magnitude of the write-offs are causing boards to tighten credit standards and we can expect regulatory oversight to stiffen. Re-intermediation will continue and securitisations will be much rarer.

What is coming into view?

Accelerating inflation rests partly on the effects of currency intervention and the consequent massive build-up of foreign exchange reserves in Asia, Russia and the Middle East. Some of this has been sterilised by way of the issue of domestic bonds, but not in sufficient quantities to offset fully the expansionary effect on money supply. Currency intervention will be a hot topic. Note that in China the government still sets both the maximum rate on deposits and the minimum rate on loans. This has allowed the banks to recapitalise themselves but now, via special reserve requirements, these set rates are throttling the ability to lend, to the extent that the credit multiplier has shrunk to about 5.5 times.

Subsidies are also likely to receive more press. These are widespread across Asia. Apart from the interest rate subsidy noted above, there are the issues of tax rebates, now being phased out in China, subsidised motor fuels, natural gas prices, electricity prices, fertilisers and so on across the developing world. In the case of India these subsidies are exploding with the rise in the prices of hydrocarbons and food and now, at 5% of the economy, threaten the central government's finances.

Inflation is starting to really frighten many Asian regimes, with recorded rates ranging between 7% and 14%. They are beginning to recognise the need to allow the true market price to ration the demand for basic necessities and to allocate resources more appropriately. This will likely lead to a change in perception about the risk of emerging markets. In the case of last year's top favourite, Vietnam, the stock market has already halved in the face of concerns about inflation at 25%, the weakening Dong, and the foreign borrowings of some state owned enterprises and banks.

A growing concern about developing markets is likely to re-establish the risk premium at higher levels. As we all know, the attraction of superior growth had completely changed investors' risk/reward perceptions such that there was little difference in the rating of emergent and developed markets. Some of this new-found faith was always questionable in the case of the resource-rich countries. It was precisely because of their natural resource wealth that their political regimes were intolerant and restricted the development of strong institutions. The natural extension of this has been a trend towards resource nationalism – hardly reassuring to owners of capital.

There is likely to be more attention to corporate earnings. Broker analysts have still barely revised their earnings estimates for the next financial year. The majority of fund managers do not believe the analyst consensus of low teens earnings growth but we are still being told that things will improve in the second half of 2008 although we're here now and it doesn't look great.

As a general statement, we can argue that equity markets are most happy when inflation is around 2%. Less than that and companies are in the difficult position recently experienced by the Japanese. Customers are highly sensitive to price increases and it is often better to absorb the pressure of costs than to lose sales from "sticker-shock". However, as inflation rises to higher levels it progressively erodes the valuation of equities. This is so for several reasons, particularly the diminished availability of credit and the effect of taxation on illusory profits. Hence, as concerns about inflation become embedded, the price investors will pay for forward earnings starts to drop.

Should this concern begin to manifest itself, fund managers will start to look for those companies that are relatively protected from inflation. This could lead to defensive, non-capital intensive businesses being favoured over those which are pure price takers and have a lot of money tied up in plant and working capital. For example, food retailers would look very good versus steel mills.

Looking slightly further out, we believe we are approaching the cross-over point where spending patterns will shift. In the West we anticipate savings will rise at the expense of consumption whilst correcting the backlog of investment in public infrastructure plus the need to address alternative energy sources and conservation will also make a positive contribution. We expect the reverse in China and most of Asia, excluding India, where savings will begin to make way for consumption. China is at the extreme where investment and the trade surplus dwarf the consumer, so that one is inclined to believe there will be some painful adjustments as an appreciating exchange rate takes its toll. This may well become an important issue when constructing portfolios in the next few years.

In the last three years Platinum has displayed a pattern of being too preemptive in both its long and short positions. He who wants to be ahead of the crowd undoubtedly runs the risk of acting too early. Our frequently expressed concerns about excessive liquidity, over-borrowing and the weak US dollar all proved perceptive. All those factors did, however, take longer than we anticipated to have their impact which caused us to fail to capture some opportunities.

We are now barely exposed to energy and resources, except pulp and paper. Instead, we are positioning the portfolio for the inevitable burst of activity in creating alternative fuels and the whole investment program this will entail. We own a group of very stable and well-run companies whose valuations are well below their longer-term averages. We have little doubt that there will be some earnings declines but believe that prospective valuations are already anticipating a weak outlook.

OUTLOOK

There are plenty of issues for the market to worry about. Consumers everywhere are feeling the pinch of rising costs, principally for food in the poorer countries and energy in the richer ones. Among the richer countries there is also a housing slump, tighter credit and the real prospect of a significant number of lay-offs. As we have been saying for a while, companies face reduced pricing power and higher input costs.

Investors are well aware that the stock market is an anticipatory mechanism. The conundrum is to assess the degree to which current prices already reflect a miserable outlook. Our view is that the magnitude and length of the boom was such that investors probably still view the future with a slightly rose-tinted blush. Unlike the "tech wreck" of 2001, at the peak of this boom there were few places to hide because of a convergence of valuations. The good were cheaper than the bad but not cheap enough to deal with profit downgrades. This is rapidly changing and those companies with the qualities we sought and highlighted last year, namely prominent business positions that support pricing power; no or low debt; margins close to trend and valuations below their historic average, now represent good absolute value.

We are relatively well-placed with our shorts in emerging markets, small caps and cyclicals. Prices in each of these sectors started to fall sharply in the early days of July.

KERR NEILSON
Managing Director

2008

FINANCIAL STATEMENTS

PLATINUM CAPITAL LIMITED

SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDERS

No shareholders appeared in the Company's Register of Substantial Shareholders, maintained in accordance with section 671B of the *Corporations Act 2001*, as at 4 August 2008.

DISTRIBUTION OF SECURITIES

	CLASS OF EQUITY SECURITY ORDINARY
(i) Distribution schedule of holdings	
1 – 1,000	857
1,001 – 5,000	3,824
5,001 – 10,000	2,795
10,001 – 100,000	3,283
100,001 and over	65
Total number of holders	10,824
(ii) Number of holders of less than a marketable parcel	369
(iii) Percentage held by the 20 largest holders	8.78%

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of listed equity securities as at 4 August 2008 are listed below:

	NUMBER OF SHARES	%
Groote Eylandt Aboriginal Trust Incorporated	1,601,250	1.26
UBS Wealth Management Australia Nominees Pty Limited	1,351,078	1.06
Forbar Custodians Limited	1,246,925	0.98
RBC Dexia Investor Services Australia Nominees Pty Limited	1,040,435	0.82
Questor Financial Services Limited	983,348	0.77
Feboco Investments Pty Limited	654,424	0.51
ANZ Nominees Limited	437,919	0.34
J P Morgan Nominees Australia Limited	419,692	0.33
RBC Dexia Investor Services Australia Nominees Pty Limited	400,190	0.31
The Uniting Church in Australia	387,000	0.30
Questor Financial Services Limited	347,595	0.27
K Neilson	324,019	0.25
Poseidon Nominees Pty Limited	300,000	0.24
Australian Executor Trustees Limited	292,844	0.23
KPT Pty Limited	274,115	0.22
Hydronomees Pty Limited	240,681	0.19
Custodial Services Limited	236,578	0.19
Trust Company Superannuation Services Limited	217,940	0.17
Robhil Pty Limited	217,709	0.17
D Frawley	210,000	0.17

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.

PLATINUM'S COMMITMENT TO CARBON NEUTRALITY

The Manager continues to report that it is carbon neutral (as is your Company), having purchased carbon credits to offset its carbon emissions. The Manager reports that it has reduced its level of carbon emissions this year and strives toward further reductions.

DISTRIBUTION OF ANNUAL REPORT TO SHAREHOLDERS

The Law allows for an "opt in" regime in which shareholders will only receive a printed "hard copy" version of the Annual Report if they request one. The Directors have decided to mail out the 2008 Annual Report to all shareholders, unless they have "opted out". This position will be kept under review. Please communicate your views to the Company Secretary by email to invest@platinum.com.au.

FINANCIAL CALENDAR

Annual General Meeting	22 October 2008
Ordinary Shares trade ex-dividend	27 October 2008
Record (books close) date for final dividend	31 October 2008
Final dividend paid	14 November 2008

These dates are indicative and may be changed.

QUESTIONS AT AGM

If you would like to submit a question prior to the AGM to be addressed at the AGM, you may email your question to invest@platinum.com.au.

INVESTMENT METHODOLOGY

Platinum Capital Limited is an investment company listed on the Australian Securities Exchange and open to investors who wish to purchase shares in the same way as one might buy shares in NAB or BHP. Platinum Capital is taxed at source and pays shareholders dividends (usually fully franked). This feature distinguishes it from unit trust products.

Platinum Capital delegates the investment function to Platinum Investment Management Limited (trading as Platinum Asset Management). This entity employs an investment team that manages the investments of Platinum Capital. These are two discrete legal entities. As a shareholder in Platinum Capital you have no interest/ownership in Platinum Investment Management Limited or its listed parent, Platinum Asset Management Limited.

Platinum Asset Management's investment process has been well-tested over time. The principles on which it is based have not varied since inception although refinements continually evolve and develop.

Platinum Asset Management seeks a broad range of investments whose businesses and growth prospects are being inappropriately valued by the market. By using themes and an industry focus, the portfolio is built up through individual stock selection. Consideration of the macro environment as well as careful evaluation of how the stock will fit and function in the portfolio are also important.

By locating the research efforts together in one place, Platinum Asset Management facilitates the cross pollination of ideas that is possible with the free-flow of information between managers with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter and calming influence enabling a more objective assessment of "noisy" markets. This process is well supported by carefully planned and extensive visits to companies and key areas.

The wealth of research and detailed analysis that leads to the consideration of a stock addition/retention/reduction in a portfolio takes form in a disciplined reporting process that is open to the critical scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" the investment decision as well as add accountability to the process. Implementation of investment decisions is also given detailed attention as is the on-going review and monitoring of the portfolio.

For a more detailed look at Platinum Asset Management's investment process we would encourage you to visit Platinum's website at the following links:

www.platinum.com.au/invest_process.htm
www.platinum.com.au/invest_diagram.htm

DIRECTORS' REPORT

In respect of the year ended 30 June 2008, the Directors of Platinum Capital Limited (the "**Company**") submit the following report made out in accordance with a resolution of the Directors.

DIRECTORS

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

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

PRINCIPAL ACTIVITY

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

TRADING RESULTS

The net loss of the Company for the year was $23,861,000 (2007: net profit $9,111,000) after income tax benefit of $10,419,000 (2007: income tax expense $3,456,000).

DIVIDENDS

Since the end of the financial year, the Directors have recommended the payment of a 5 cents per share ($6,358,000) fully franked dividend payable to shareholders on 14 November 2008.

A fully franked interim dividend of 5 cents per share ($6,295,000) was paid on 4 March 2008.

A fully franked final dividend of 10 cents per share ($12,400,000) for the year ended 30 June 2007 was paid on 14 November 2007.

REVIEW OF OPERATIONS

The net loss before tax was $34,280,000 (2007: net profit before tax $12,567,000) and net loss after tax was $23,861,000 (2007: net profit after tax was $9,111,000).

Income tax benefit for the year was $10,419,000 (2007: income tax expense $3,456,000).

CHANGES IN THE STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company will continue to pursue its investment objective which is to increase the net asset value of the Company. The methods of operating the Company are not expected to change in the foreseeable future.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and consequently amounts in the Directors' Report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

ENVIRONMENTAL REGULATION

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

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Directors, in accordance with advice received from the Audit Committee, are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services, that the provision of non-audit services by the Auditor, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

Details of the amounts paid or payable to the Auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in the table on page 20.

	2008 $	2007 $
Audit services – statutory	**84,319**	76,480
Taxation services – compliance	**42,903**	29,740
Taxation services – foreign tax agent	**9,139**	2,955
Taxation services – advice	**–**	2,333
Total	**136,361**	111,508

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 25.

INFORMATION ON DIRECTORS

Graeme Galt MBA, BCOM

Independent Non-Executive Director and Chairman for six years and member of the Audit Committee. (Age 68)

Mr Galt has extensive experience in senior line and staff roles, and in consulting positions across a wide range of industries and markets. He has held various directorships in both private and public companies.

Peter Clarke BSC (ECON)

Independent Non-Executive Director for nine years and Chairman of the Audit Committee. (Age 72)

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

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director for four years and member of the Audit Committee. (Age 58)

Mr Coleman has worked in the Finance and Investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. He has held various directorships within MLC Limited, Lend Lease and the National Australia Banking group. Former Director of MLC Limited from 2001 to 2004. Mr Coleman is a Non-Executive Director of Platinum Asset Management Limited.

Kerr Neilson BCOM (UCT), ASIP

Managing Director for 14 years. (Age 58)

Relevant interest in 324,020 shares in the Company. Appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Investment Management Limited, the Company's Investment Manager and Platinum Asset Management Limited. Prior to Platinum, Mr Neilson was an Executive Vice President at Bankers Trust Australia Limited. Previously he worked in both the UK and South Africa as an investment analyst and fund manager.

Andrew Clifford BCOM (HONS) (UNSW)

Director for 14 years. (Age 42)

Relevant interest in 81,004 shares in the Company.

Appointed a Director of the Company upon incorporation. He is a Director of Platinum Investment Management Limited, the Company's Investment Manager. Prior to Platinum Investment Management Limited, Mr Clifford was a Vice President at Bankers Trust Australia Limited.

Malcolm Halstead CA

Finance Director and Company Secretary for 14 years. (Age 50)

Relevant interest in 64,804 shares in the Company. Appointed a Director of the Company upon incorporation. He is a Director of Platinum Investment Management Limited, the Company's Investment Manager and a Director of Platinum Asset Management Limited. Prior to Platinum, Mr Halstead was a Vice President at Bankers Trust Australia Limited. Previously he was with Price Waterhouse, Sydney and Jolliffe Cork, London.

DIRECTORS' MEETINGS

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2008.

NAME	BOARD MEETINGS HELD WHILE A DIRECTOR	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE MEETINGS HELD WHILE A MEMBER	AUDIT COMMITTEE MEETINGS ATTENDED
G Galt	6	6	3	3
P Clarke	6	5	3	3
B Coleman	6	6	3	3
K Neilson	6	5	–	–
A Clifford	6	6	–	–
M Halstead	6	6	–	–

REMUNERATION REPORT (AUDITED)

Principles used to determine the nature and amount of remuneration

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

Directors' fees

Non-Executive Directors' base remuneration is reviewed annually.

Retirement benefits for Directors

No retirement benefits (other than mandatory superannuation) are provided to Directors.

Other benefits (including termination) and incentives

No other benefits and incentives are paid to Directors.

Details of Remuneration

The Executive Directors (K Neilson, A Clifford and M Halstead) are all employees of the Investment Manager, Platinum Investment Management Limited, and are not remunerated by the Company. The Non-Executive Directors received the following amounts from the Company during the financial year:

NAME	SHORT-TERM BENEFITS SALARY $	POST-EMPLOYMENT BENEFITS SUPERANNUATION $	TOTAL $
G Galt	55,000	4,950	59,950
P Clarke	50,000	4,500	54,500
B Coleman	50,000	4,500	54,500
Total remuneration	155,000	13,950	168,950

AASB 124: *Related Party Disclosures* defines key management personnel as "persons having authority and responsibility for planning, directing and controlling activities of the entity". The only employees who have this authority and responsibility are the Directors of Platinum Investment Management Limited.

Directors

The following persons were Directors of Platinum Investment Management Limited during the whole of the financial year and up to the date of this report:

K Neilson
A Clifford
M Halstead

There are no employees who hold an executive position within Platinum Investment Management Limited.

Key Management Personnel Compensation

The Executive Directors (K Neilson, A Clifford and M Halstead) are all employees of the Investment Manager, Platinum Investment Management Limited, and are not compensated by the Company. AASB 124 requires compensation provided by the Company or on behalf of the Company to be disclosed. Platinum Investment Management Limited is a related entity of the three Executive Directors, because the Executive Directors are also Directors of Platinum Investment Management Limited which provides investment management services to the Company.

A portion of the compensation paid by Platinum Investment Management Limited to its employees is in relation to managing the affairs of the Company. Platinum Investment Management Limited has not made any determination as to what proportion of its employees' compensation relates to the Company. Platinum Investment Management Limited paid: K Neilson a salary of $313,132 (2007: $207,575) and superannuation of $99,997 (2007: $105,111); A Clifford a salary of $313,130 (2007: $220,302), superannuation of $49,999 (2007: $42,384) and non-monetary benefits $nil (2007: $3,415); M Halstead a salary of $313,130 (2007: $250,000), and superannuation of $49,999 (2007: $12,686).

Shareholdings

In the Company, the number of Ordinary Shares in which the Directors have a relevant interest at balance date is as follows:

NAME	BALANCE AT 01/07/07	ACQUISITIONS	DISPOSALS	BALANCE AT 30/06/08
K Neilson	324,020	–	–	324,020
A Clifford	81,004	–	–	81,004
M Halstead	64,804	–	–	64,804

Service Agreements

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

G Galt, Chairman and Non-Executive Director

- Commenced on 25 July 2002.
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $59,950.

P Clarke, Non-Executive Director

- Commenced on 15 April 1999.
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $54,500.

B Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $54,500.

Share-Based Compensation

No shares or options are granted to Directors.

Directors' Interests in Contracts

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

DIRECTORS' INSURANCE

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

EXECUTIVES

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

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

GRAEME GALT
Chairman

Sydney, 8 August 2008

KERR NEILSON
Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Platinum Capital Limited during the period.

A J WILSON
Partner
PricewaterhouseCoopers
Sydney, 8 August 2008

Liability is limited by a Scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

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

The objective of the Company is to seek long-term capital growth through utilising the skills of the Investment Manager, Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 which trades as "**Platinum Asset Management**".

Other than its Directors, the Company has no employees. It has no premises, plant or equipment or other physical assets. The Company's day-to-day affairs are managed by Platinum Asset Management in accordance with an Administrative Services Agreement. The Company's investment activities are undertaken by Platinum Asset Management in accordance with an Investment Management Agreement. The Company's main corporate governance practices are set out below and, unless otherwise stated, were in place for the entire year. The Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Governance Principles**"), except where indicated.

Company policies, charters and codes referred to in this Statement are provided on the Company's website at www.platinumcapital.com.au ("**Company's website**").

1. THE BOARD OF DIRECTORS

G Galt (Chair)

P Clarke

B Coleman

K Neilson

A Clifford

M Halstead

The Board operates in accordance with its Charter – a copy is available from the Company's website.

The Charter details the functions and responsibilities of the Board.

1.1 Role of the Board

The role of the Board is to ensure:

- the appointed Investment Manager is performing its duties in a skilful and diligent manner, employs qualified and experienced staff and operates appropriate risk monitoring and compliance procedures; and
- the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted.

1.2 Responsibilities of the Board

The principal responsibilities of the Board include:

- overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement;
- monitoring the Company's financial performance;
- identifying, controlling and monitoring material risks faced by the Company (including those associated with its compliance obligations) and ensuring appropriate reporting mechanisms are in place; and
- overseeing communications and reporting to shareholders.

1.3 Composition of the Board

The Board comprises three Executive Directors (K Neilson, A Clifford and M Halstead) and three Non-Executive Directors (G Galt, P Clarke and B Coleman). The qualifications, experience and term of office of the Directors are provided in the Directors' Report on pages 20 and 21.

The Board has determined (according to the criteria summarised below) that G Galt (the Chair of the Board), P Clarke and B Coleman are "independent" Non-Executive Directors.

Recommendation 2.1 of the Governance Principles provides that "a majority of the Board should be independent directors". The Board has determined that, given the size of the Company and its specialised nature, an "equal" representation is more appropriate.

Director Independence

In consideration of the Governance Principles, the Board defines an "independent director" to be a person who:

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

The Board determines "materiality" on both a quantitative and qualitative basis. An item that affects the Company's turnover by more than 0.5% is likely to be material. However, this quantitative measure is supplemented with a qualitative examination, as the facts and the context in which the item arises will influence the determination of materiality.

1.4 Chair of the Board and Managing Director (CEO)

The roles of the Chair and Managing Director are separate roles to be undertaken by different people.

The Chair is responsible for leading the Board, ensuring that the Board's activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings.

The Managing Director is responsible for ensuring the Investment Manager and Administrator, Platinum Asset Management, complies with the terms of the Investment Management Agreement and Administrative Services Agreement.

1.5 Recommendation 2.4 – Establishment of a Nomination Committee

Recommendation 2.4 of the Governance Principles provides that "the board should establish a nomination committee". Such a committee is mandated with reviewing, assessing and recommending changes to the company's process for evaluating, selecting and appointing directors.

Given the size of the Company and the Board, the Board considers a nomination committee is not warranted. The entire Board undertakes the role.

The Board considers the following when evaluating, selecting and appointing Directors:

- the candidate's competencies, qualifications and expertise and his/her fit with the current membership of the Board;
- the candidate's knowledge of the industry in which the Company operates;
- directorships previously held by the candidate and his/her current commitments to other boards and companies;
- existing and previous relationships with the Company and Directors;
- the candidate's independence status and the need for a majority balance on the Board; and
- requirements of the *Corporations Act 2001*, ASX Listing Rules, the Company's Constitution and Board Policy.

The Board seeks to ensure that:

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

1.6 Director Term of Office

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

1.7 Independent Professional Advice

The Board of Directors' Charter provides that the Directors may seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for reasonableness, but will not impede the seeking of advice.

1.8 Performance Assessment

The Board undertakes an annual self assessment of its collective performance, as well as the performance of its committees. The Board reviews its performance in terms of Company objectives, Company results and achievements of the Investment Manager. The Board ensures each Director has the necessary skills, experience and expertise, and the mix remains appropriate for the Board to function effectively. This assessment was undertaken during August 2008. Independent professional advice may be sought as part of this process.

Principle 1.2 of the Governance Principles provides that "companies should disclose the process for evaluating the performance of senior executives". Given the Company has no senior executives other than the Executive Directors of the Board and the Executive Directors are not remunerated by the Company, it is considered appropriate that their performance be assessed as part of the collective review outlined below.

2. BOARD COMMITTEES

The Board may establish committees to assist in the execution of its duties and to allow a detailed consideration of complex issues. To date, the Board has only found a need to establish an Audit Committee.

2.1 Audit Committee

The Audit Committee consists of three Non-Executive and "independent" Directors: P Clarke (Chair of the Committee), G Galt and B Coleman.

Each member of the Committee has the appropriate financial expertise and industry understanding to perform his role. B Coleman is a Chartered Accountant, and P Clarke and G Galt are finance professionals. A summary of the Directors' qualifications and attendance at Audit Committee meetings is provided in the Directors' Report.

The Audit Committee operates according to its Charter, which is available from the Company's website. The Charter sets out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate.

The principal role of the Committee is to assist the Board in fulfilling its responsibilities relating to the financial reporting and accounting practices of the Company. Its key responsibilities are to:

- review and recommend to the Board the financial statements (including key financial and accounting principles adopted by the Company);
- assess and recommend to the Board the appointment of external auditors;
- monitor the conduct of audits;
- monitor the Company's compliance with its statutory obligations;
- review and monitor the adequacy of management information and internal control systems; and
- ensure that any shareholder queries relating to such matters are dealt with expeditiously.

All matters determined by the Committee are submitted to the full Board as recommendations for Board decisions.

Minutes of a Committee meeting are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the Committee to the Board are addressed in the Charter.

2.2 Recommendation 8.1 – Establishment of a Remuneration Committee

Recommendation 8.1 of the Governance Principles provides that "the board should establish a remuneration committee". Such a Committee is mandated with reviewing and recommending remuneration, incentive and employment policies for executive directors, other senior executives and non-executive directors.

Given the size of the Company and the fact that the Executive Directors are not remunerated by the Company, the Board has determined that a remuneration committee is not needed.

Remuneration Policies

Remuneration for the Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. The Executive Directors review and determine the remuneration of the Non-Executive Directors accordingly. Independent professional advice may be sought. Further information is provided in the Remuneration Report.

Remuneration Paid

Remuneration Paid to the Non-Executive Directors for the 2007/2008 reporting year is set out on pages 22 to 24 of the Directors' Report.

3. EXTERNAL AUDITORS

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

PricewaterhouseCoopers was appointed as the external Auditor to the Company in 1994. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external Auditor, including a breakdown of fees for non-audit services, is provided in the Directors' Report. It is the policy of the external Auditor to provide an annual declaration of its independence to the Audit Committee.

The external Auditor will attend the Company's AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

4. COMPANY POLICIES

4.1 Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct which is based upon the Australian Institute of Company Directors' Code of Conduct. It requires the Directors to act honestly, in good faith, and in the best interests of the Company as a whole, whilst in accordance with the letter (and spirit) of the law.

A copy of the Directors' Code of Conduct is available from the Company's website.

4.2 Trading in Company Securities

The purchase and sale of shares in the Company by Directors is only permitted during a period of five business days following the Company's release of its monthly net tangible assets figure to the ASX. Additional blackout periods are enforced as necessary (e.g. during an on-market buy-back of shares on issue). Any and all changes to Director shareholdings are reported to the ASX.

The Investment Manager, Platinum Asset Management, imposes the same rules on itself and its employees.

A copy of the Share Trading Policy is available from the Company's website.

4.3 Financial Reporting

In respect of the year ended 30 June 2008, the Managing Director and Finance Director have made the following certifications to the Board:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant Accounting Standards.
- The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

4.4 Continuous Disclosure

The Board is committed to:

- the promotion of investor confidence by ensuring that trading in Company shares takes place in an efficient, competitive and informed market;
- complying with the Company's disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*; and
- ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

The Company Secretary is responsible for coordinating the disclosure of information to Regulators and shareholders, and ensuring that any notifications/reports to the ASX are promptly posted on the Company's website.

A copy of the Continuous Disclosure Policy is available from the Company's website.

4.5 Shareholder Communication

The Board has adopted a Communications Plan which describes the Board's policy for ensuring shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company. The Company's primary portals are its website, Annual Report, AGM, Half-Yearly Report, Quarterly Investment Report and monthly notices to the ASX.

The Company Secretary oversees and coordinates the distribution of all information by the Company to the ASX, shareholders, the media and the public.

A copy of the Communications Plan is available from the Company's website.

4.6 Risk Assessment and Management

The Board, through the Audit Committee, is responsible for ensuring that:

- there are adequate policies for the oversight and management of material business risks to the Company;
- there are effective systems in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and
- arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The Executive Directors have reported to the Board as to the effectiveness of the Company's management of its material business risks.

The appointed Investment Manager and Administrator, Platinum Asset Management, has implemented risk management and compliance frameworks based on AS/NZS 4360:2004 Risk Management Standard and AS 3806-2006 Compliance Programs. These frameworks (together with the firm's internal audit function) ensure that:

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including business rules of conduct) is communicated and demonstrated.

Platinum Asset Management reports periodically to the Audit Committee on the effectiveness of its risk management and compliance frameworks with respect to services undertaken for the Company.

A summary of the Company's and the Investment Manager's risk management practices is available from the Company's website.

4.7 Business Rules of Conduct

The appointed Investment Manager and Administrator, Platinum Asset Management, has established Business Rules of Conduct ("**BROC**") applicable to its Directors and staff. It communicates the appropriate standards of behaviour, provides a framework for the workplace, and informs staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes.

Compliance is monitored by the Compliance team. Regular training sessions are provided by the Compliance Manager. All employees are asked to sign an annual declaration confirming their compliance with the BROC.

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008 $'000	2007 $'000
Investment income			
Dividends		**3,185**	2,842
Interest		**502**	560
Net gains/(losses) on equities/derivatives		**(34,432)**	10,710
Net gains on forward currency contracts		**3,043**	6,340
Net (losses) on overseas bank accounts		**(2,064)**	(3,008)
Total investment income		(29,766)	17,444
Expenses			
Management fee		**2,888**	3,237
Custody		**176**	185
Share registry		**224**	264
Directors' fees		**169**	164
Continuous reporting disclosure		**127**	143
Auditor's remuneration			
– Auditing and assurance services ($84,319, 2007: $76,480)		**84**	76
– Taxation services ($52,042, 2007: $35,028)		**52**	35
Transaction costs		**157**	157
Withholding tax on foreign dividends		**342**	273
Other expenses		**295**	343
Total expenses		4,514	4,877
Profit/(loss) before income tax		(34,280)	12,567
Income tax expense/(benefit)	2(a)	**(10,419)**	3,456
Profit/(loss) after income tax	8	(23,861)	9,111
Basic earnings per share (cents per share)	7	(19.00)	7.42
Diluted earnings per share (cents per share)	7	(19.00)	7.42

The Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET AS AT 30 JUNE 2008

	NOTES	2008 $'000	2007 $'000
Assets			
Financial assets at fair value through profit or loss	1(c), 3	**138,847**	192,405
Cash and cash equivalents	9(a)	**19,028**	21,148
Receivables	4	**407**	367
Deferred tax assets	2(b)	**6,689**	114
Income tax receivable		**2,415**	–
Total assets		**167,386**	214,034
Liabilities			
Payables	5	**642**	1,411
Income tax payable		**–**	1,141
Deferred tax liabilities	2(c)	**125**	7,565
Total liabilities		**767**	10,117
Net assets		**166,619**	203,917
Equity			
Contributed equity	6	**148,533**	143,275
Retained profits	8	**18,086**	60,642
Total equity		**166,619**	203,917

The Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008 $'000	2007 $'000
Total equity at the beginning of the financial year		**203,917**	207,574
Profit/(loss) for the year		**(23,861)**	9,111
Total recognised income and expense for the financial year		**(23,861)**	9,111
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transactions costs		**5,258**	5,548
Dividends paid	14	**(18,695)**	(18,316)
		(13,437)	(12,768)
Total equity at the end of the financial year		**166,619**	203,917

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008 $'000 INFLOWS (OUTFLOWS)	2007 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Dividends received		**3,190**	2,768
Interest received		**528**	549
Cost of purchases of financial assets		**(109,294)**	(129,584)
Proceeds from sale of financial assets		**129,980**	150,335
Management fees paid		**(2,956)**	(3,244)
Other expenses		**(1,607)**	(1,657)
Income tax paid		**(7,151)**	(10,674)
Net cash from operating activities	9(b)	**12,690**	8,493
Cash flows from financing activities			
Proceeds from issue of shares		**5,258**	5,548
Dividends paid		**(18,725)**	(18,342)
Net cash from financing activities		**(13,467)**	(12,794)
Net increase/(decrease) in cash and cash equivalents		**(777)**	(4,301)
Cash and cash equivalents held at the beginning of the financial year		**21,148**	28,070
Effects of exchange rate changes on cash and cash equivalents		**(1,343)**	(2,621)
Cash and cash equivalents held at the end of the financial year	9(a)	**19,028**	21,148

The Cash Flow Statement 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 Australian Equivalents to International Financial Reporting Standards ("**AIFRS**"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(a) Basis of Preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of "financial assets held at fair value through profit or loss".

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements of the Company, and notes thereto, comply with International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with AIFRS requires the use of certain critical accounting estimates and judgements, which are included below.

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period taxable income, based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Under AASB 112: *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases.

(c) Financial Assets at Fair Value through Profit or Loss

Under AASB 139, investments are classified in the Balance Sheet as "financial assets at fair value through profit or loss". These financial assets are initially recognised at fair value, typically represented by cost excluding transaction costs, which are expensed as incurred. Financial assets are measured at fair value and exclude transaction costs. Investment values are based on quoted "bid" prices on long securities and quoted "ask" prices on securities sold short.

Gains and losses arising from changes in the fair value of the financial assets are included in the Income Statement in the period in which they arise.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(d) Transaction Costs

Initial measurement (cost) on acquisition of trading securities shall not include directly attributable transaction costs such as fees and commissions paid to agents. Incremental transaction costs are expensed as incurred in the Income Statement.

(e) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* will be the Australian dollar.

Transactions denominated in foreign currencies are translated into Australian currency at the rates of exchange prevailing on the date of the transaction. Foreign currency assets and liabilities existing at balance date are translated at exchange rates prevailing at balance date. Resulting exchange rate differences are brought to account in determining profit and loss for the year.

(f) Investment Income

Interest income

Interest income is recognised in the Income Statement using the effective interest method, which allocates income over the relevant period.

Dividend income

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

(g) Directors' Entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fees rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(h) Earnings per Share

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

(i) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, 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 Cash Flow Statement, is reconciled to the related item in the Balance Sheet.

(j) Receivables

All receivables are recognised as and when they are due. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when there is evidence the amount will not be collected.

(k) Payables

All payables and trade creditors are recognised as and when the Company becomes liable.

(l) Contributed Equity

Ordinary shares are classified as equity.

(m) Dividends

Provision is made for the amount of any dividend declared or determined by the Directors on or before the end of the financial year but not paid at balance date.

(n) Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and consequently amounts in the financial report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(o) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or has been expensed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(p) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2008 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 101: *Presentation of Financial Statements* and AASB 2007-8: *Amendments to Australian Accounting Standards* (AASB 101)

The revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a Statement of Comprehensive Income and makes changes to the Statement of Comprehensive Income and to the Statement of Changes in Equity, but will not affect any of the amounts recognised in the financial statements. If the Company has made prior period adjustments or reclassified items in the financial statements, it will need to disclose a third Balance Sheet (Statement of Financial Position), as at the beginning of the comparative period.

The Company intends to apply the revised standard from 1 July 2009.

(ii) AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards* (AASB 107 and AASB 134)

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 requires the adoption of a "management approach" to disclosing information about its reportable segments. Generally, the financial information will be reported on the same basis as is used internally by the chief decision-maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. The amendments may have an impact on the Company segment disclosures. However, the amendment will not affect any of the amounts recognised in the Company's financial statements. The Company has not adopted this standard early.

	2008 $'000	2007 $'000
2. INCOME TAX		
(a) The income tax expense/(benefit) attributable to profit/(loss) comprises:		
Current income tax provision	**3,410**	3,542
Deferred tax liabilities	**(7,440)**	(13)
Deferred tax assets	**(6,575)**	(38)
Under/(over) provision of prior period tax	**186**	(35)
Income tax expense/(benefit)	**(10,419)**	3,456
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit/(loss). The difference is reconciled as follows:		
Profit/(loss) before income tax expense	**(34,280)**	12,567
Prima facie income tax on profit/(loss) at 30%	**(10,284)**	3,770
Tax effect on temporary differences which:		
Reduce tax payable		
Allowable credits	**(321)**	(279)
Under/(over) provision of prior period tax	**186**	(35)
Income tax expense/(benefit)	**(10,419)**	3,456
(b) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Auditing and review	**17**	8
Taxation services	**7**	6
Preparation of annual report	**50**	68
Unrealised losses on financial assets	**6,615**	–
Accounting/tax cost on investments	**–**	32
Deferred tax assets	**6,689**	114
(c) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Dividends receivable	**31**	33
Accounting/tax cost on investments	**94**	–
Unrealised gains on financial assets	**–**	7,532
Deferred tax liabilities	**125**	7,565

	2008 $'000 FAIR VALUE	2007 $'000 FAIR VALUE
3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed and non-listed securities	**136,174**	190,937
Derivatives	**2,542**	502
Foreign currency contracts	**131**	966
	138,847	192,405

The fair value of financial assets are measured at "bid" price for listed securities and "ask" price for short sold listed securities excluding transaction costs.

	2008 $'000	2007 $'000
4. RECEIVABLES		
Proceeds on sale of financial assets	**143**	1
Dividends receivable	**103**	107
Interest receivable	**21**	46
Prepayments	**74**	87
Sundry debtors	**37**	56
Goods and Services Tax	**29**	70
	407	367

Proceeds on sale of financial assets 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 30 days of the ex-dividend date.

5. PAYABLES		
Payables on purchase of financial assets	**1**	638
Trade creditors (unsecured)	**509**	611
Unclaimed dividends payable to shareholders	**132**	162
	642	1,411

Payables on purchase of financial assets are usually paid between two and five days after trade date. Trade creditors are unsecured and payable between seven and 30 days after being incurred. These current payables are non-interest bearing.

		2008 QUANTITY	2008 $'000	2007 QUANTITY	2007 $'000
6. CONTRIBUTED EQUITY					
Opening balance		**124,004,583**	**143,275**	121,599,656	137,727
Reinvestment of unclaimed dividends	31-Aug-06	–	–	7,635	18
Dividend reinvestment plan	17-Nov-06	–	–	1,519,329	3,616
Dividend reinvestment plan	1-Mar-07	–	–	861,444	1,878
Reinvestment of unclaimed dividends	23-May-07	–	–	16,519	36
Reinvestment of unclaimed dividends	6-Sep-07	**8,210**	**17**	–	–
Dividend reinvestment plan	14-Nov-07	**1,892,923**	**3,445**	–	–
Dividend reinvestment plan	4-Mar-08	**1,223,327**	**1,761**	–	–
Reinvestment of unclaimed dividends	15-May-08	**21,015**	**35**	–	–
Closing balance		**127,150,058**	**148,533**	124,004,583	143,275

Shares are issued under the Dividend Reinvestment Plan at a 5% discount to the market price. For reinvestment of unclaimed dividends, additional shares are issued at the last sale price of the Company's shares on the first business day following the expiration six months from the date of payment of the relevant dividend.

Ordinary Shares

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

	2008	2007
7. EARNINGS PER SHARE		
Basic earnings per share – cents per share	**(19.00)**	7.42
Diluted earnings per share – cents per share	**(19.00)**	7.42
Weighted average number of Ordinary Shares on issue used in the calculation of basic and diluted earnings per share	**125,601,279**	122,836,450

	2008 $'000	2007 $'000
Earnings used in the calculation of basic and diluted earnings per share	**(23,861)**	9,111

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 Ordinary Shares during the financial year. As there are no potential Ordinary Shares, diluted earnings per share equals basic earnings per share.

	NOTES	2008 $'000	2007 $'000
8. RETAINED PROFITS			
Retained earnings at the beginning of the financial year		**60,642**	69,847
Net profit/(loss)		**(23,861)**	9,111
Dividends provided for or paid	14	**(18,695)**	(18,316)
Retained earnings at the end of the financial year		**18,086**	60,642

	2008 $'000	2007 $'000
9. NOTES TO THE CASH FLOW STATEMENT		
(a) Reconciliation of Cash		
Cash at bank*	**150**	172
Cash on deposit**	**18,878**	20,976
	19,028	21,148

* Includes $130,000 (2007: $157,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $8,102,000 (2007: $9,457,000) on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security and are not available for use by the Company until the derivative contracts are closed out. If losses are realised on the close out of derivative contracts, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bears floating interest rates in the range of 0.20% to 0.85% (2007: 0.05% to 0.85%).

9. NOTES TO THE CASH FLOW STATEMENT CONTINUED

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

	2008 $'000	2007 $'000
Profit/(loss) after income tax	**(23,861)**	9,111
Decrease/(increase) in investment securities and forward currency contracts	**53,558**	3,305
(Increase)/decrease in cash due to exchange rate movements	**1,343**	2,621
Decrease/(increase) in settlements receivable	**(142)**	43
Decrease/(increase) in dividends receivable	**4**	(26)
Decrease/(increase) in interest receivable	**25**	(10)
Decrease/(increase) in Goods and Services Tax receivable	**41**	(36)
Decrease/(increase) in sundry debtors	**19**	99
Decrease/(increase) in prepayments	**13**	(20)
(Decrease)/increase in accrued expenses	**(102)**	31
(Decrease)/increase in settlements payable	**(637)**	592
(Decrease)/increase in income tax payable	**(3,556)**	(7,166)
(Increase)/decrease in deferred tax assets	**(6,575)**	(38)
Increase/(decrease) in deferred tax liabilities	**(7,440)**	(13)
Net cash from operating activities	**12,690**	8,493

10. STATEMENT OF NET ASSET VALUE

Reconciling Net Asset Value in accordance with AIFRS to that reported to the ASX*

	2008 $'000	2007 $'000
Net Asset Value per Balance Sheet	**166,619**	203,917
Add:		
Difference between bid price under AIFRS and last sale price	**163**	(267)
Less:		
Deferred Income tax asset on revaluation of investments not recognised in Net Asset Value	**(3,106)**	–
Deferred income tax asset on movements on AIFRS and last sale price	**(49)**	80
Net Asset Value	**163,627**	203,730
Net Asset Value – cents per share	**128.69**	164.29

* Financial assets are valued at last sale price with an allowance for transaction costs.

	QUANTITY	2008 FAIR VALUE $'000

11. INVESTMENT PORTFOLIO

Japan

Advantest	11,900	**261**
Ajinomoto	34,183	**336**
Alpine Electronics	61,600	**677**
Denso	81,330	**2,916**
Hamamatsu Photonics	27,200	**733**
Inpex Holdings	19	**248**
JGC	136,400	**2,786**
Kajima	128,400	**468**
Mitsubishi Tokyo Financial	511,700	**4,729**
Mitsui Sumitomo Insurance	13,300	**478**
Murata Manufacturing	21,268	**1,032**
Nagano Bank	2,100	**6**
Nitto Denko	13,300	**530**
Nomura Securities	16,000	**247**
Obayashi	451,700	**2,134**
Obic	3,710	**649**
Sekisui House	113,800	**1,108**
Shimizu	126,900	**627**
SMC	6,555	**746**
Sony	26,020	**1,155**
Sumitomo Mitsui	121	**950**
Tokyo Electron	17,100	**1,026**
Toyota Industries	58,600	**1,957**
Ulvac	10,400	**380**
Ushio Denki	61,500	**1,048**
Yamanashi Chuo Bank	67,395	**366**
Yokogawa Electric	173,500	**1,651**
Total Japan		**29,244**

	QUANTITY	2008 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
Other Asia		
China		
Bank of China – H	4,242,100	**1,964**
Denway Motors	1,862,695	**750**
Dongfeng Motor Group – H	1,182,900	**494**
EcoGreen Fine Chemicals Group	3,160,000	**968**
Shui on Land	1,037,200	**894**
Travelsky Technology – H	1,003,700	**688**
		5,758
Hong Kong		
Computime Group	5,186,300	**555**
Galaxy Entertainment Group	314,500	**212**
Henderson Land Development	402,900	**2,615**
Hutchison Whampoa	434,300	**4,561**
		7,943
India		
S&P CNX Jul 08 Future – Sold Short	(155)	**52**
		52
Korea		
Kangwon Land	55,313	**1,220**
Korea Investment Holdings	16,132	**662**
Samsung Electronics	5,371	**3,323**
		5,205
Malaysia		
Gamuda Bhd	769,400	**573**
		573

11. INVESTMENT PORTFOLIO CONTINUED

Other Asia CONTINUED

	QUANTITY	2008 FAIR VALUE $'000
Taiwan		
Far Eastone Telecom	348,227	**577**
Polaris Securities	3,975,274	**2,479**
SinoPac Financial Holdings	3,270,000	**1,478**
Taiwan Semiconductor Manufacturing	150,000	**334**
Yuanta Financial Holding	442,131	**323**
Yuanta Financial Holding P-Note	1,099,009	**796**
		5,987
Singapore		
Singapore Airlines	162,220	**1,829**
		1,829
Thailand		
Airports of Thailand – Foreign	456,000	**683**
Bangkok Bank – Foreign	197,024	**725**
Bangkok Bank – NVDR	635,760	**2,340**
		3,748
Total Other Asia		**31,095**
Australia		
SPI 200 Sept 08 Future – Sold Short	(19)	**87**
Total Australia		**87**

11. INVESTMENT PORTFOLIO CONTINUED

Europe – Euro

	QUANTITY	2008 FAIR VALUE $'000
France		
Areva	1,093	**1,335**
Credit Agricole	52,680	**1,124**
European Aeronautic Defence & Space	25,799	**510**
Lagardere	23,300	**1,384**
Pernod Ricard	23,048	**2,468**
PPR	18,111	**2,103**
Sanofi-Aventis	37,000	**2,580**
Schneider Electric	19,290	**2,175**
		13,679
Germany		
Adidas	15,800	**1,043**
Bayerische Moteren Werke	46,000	**2,308**
DAX Index Future Sept 08 – Sold Short	(13)	**215**
Henkel KGAA – Vorzug	52,591	**2,187**
Hornbach Baumarkt	45,600	**2,923**
Hornbach Holdings	11,860	**1,156**
Infineon Technologies	144,200	**1,292**
MTU Aero Engines Holdings	19,000	**644**
Qiagen	21,968	**459**
SAP	50,352	**2,755**
Siemens	37,249	**4,312**
		19,294
Netherlands		
ArcelorMittal – Sold Short	(8,430)	**10**
Royal Dutch Shell	37,714	**1,619**
		1,629
Total Europe – Euro		**34,602**

11. INVESTMENT PORTFOLIO CONTINUED

	QUANTITY	2008 FAIR VALUE $'000
Europe – Other		
Sweden		
Ericsson – B	139,500	**1,519**
		1,519
United Kingdom		
Reed Elsevier	61,116	**731**
SABMiller	1,200	**29**
		760
Total Europe – Other		**2,279**
North America		
Canada		
Bombardier	559,400	**4,234**
Cameco	10,000	**446**
Canfor Pulp Income Fund	58,000	**694**
Domtar	190,600	**1,018**
Iamgold	45,100	**281**
Kincross Gold	10,000	**246**
		6,919

	QUANTITY	2008 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
North America CONTINUED		
United States		
Advanced Micro Devices	103,000	**624**
American International Group – Call Option	52,467	**74**
Amdocs	15,700	**481**
AMR	75,600	**404**
Barrick Gold	46,800	**2,222**
Best Buy – Sold Short	(4,000)	**16**
Caliper Life Sciences	63,114	**170**
CH Robinson Worldwide – Sold Short	(3,000)	**3**
Cisco Systems	133,600	**3,242**
Citigroup – Call Option	123,551	**49**
Continental Airlines	30,600	**323**
Cummins Inc – Sold Short	(5,000)	**(4)**
Delta Air Lines	63,000	**375**
eBay	55,900	**1,592**
Far East Energy	888,000	**621**
General Growth Properties – Sold Short	(1,400)	**2**
Goldman Sachs Group – Sold Short	(7,609)	**38**
Incyte	42,046	**334**
International Paper	147,966	**3,595**
Ishares Emerging Markets Index Fund – Sold Short	(32,600)	**55**
Ishares MSCI Emerging Markets Index Fund – Sold Short	(20,000)	**122**
Ishares Real Estate ETF – Sold Short	(60,000)	**381**
Ishares S&P 600 Cap Index Fund – Sold Short	(68,900)	**101**
JB Hunt Transport Services – Sold Short	(7,000)	**(7)**
Johnson & Johnson	42,000	**2,816**
KBR	18,784	**683**
Mercer International	89,000	**694**
Micron Technology	254,200	**1,586**

11. INVESTMENT PORTFOLIO CONTINUED

North America CONTINUED

	QUANTITY	2008 FAIR VALUE $'000
United States CONTINUED		
Microsoft	176,500	**5,069**
Newmont Mining	43,050	**2,340**
News Corp – CDI	105,279	**1,721**
Research In Motion Ltd – Sold Short	(13,000)	**374**
Russell Mini September 08 Future – Sold Short	(133)	**603**
Smurfit-Stone Container	225,000	**953**
Southwest Airlines	23,000	**313**
T Rowe Price Group – Sold Short	(44,200)	**258**
Temple-Inland	22,400	**264**
VEECO Instruments	36,636	**615**
XOMA	127,145	**225**
		33,327
Total North America		**40,246**
South America		
Brazil		
Ishares MSCI Brazil Index Fund – Sold Short	(58,000)	**115**
		115
Peru		
Bayer Peru – Trabajo	77,287	**143**
Peru Holding De Turismo – Trabajo	1,667,523	**111**
		254
Total South America		**369**
South Africa		
Anglogold Ashanti – ADR	22,470	**794**
Total South Africa		**794**

	QUANTITY	2008 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
Liquids		
Outstanding settlements		245
Forward currency contracts		131
Cash on deposit		18,878
Total Liquids		19,254
Total Investment Portfolio (Notes 12(b) and 12(c))		157,970
Accounted for in payables (payables on purchase of investments)		1
Accounted for in receivables (proceeds on sale of investments)		(143)
Accounted for in receivables (dividends receivable)		(103)
Accounted for in Financial Assets (Note 3) and Cash on Deposit (Note 9(a))		157,725

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

Number of transactions – 1,957 Total brokerage paid – $341,327

12. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives, Policies and Processes

The Company's primary risks are related to the investment activities undertaken on its behalf by the Investment Manager. The risks the Investment Manager is exposed to include market risk (including currency and price risk), credit risk and liquidity risk.

The Investment Manager's investment style:

(i) adopts a bottom-up, stock selection methodology in which long-term capital growth is sought through investing in undervalued securities across the world;

(ii) seeks absolute returns and not returns relative to any index;

(iii) utilises short selling of shares and indices;

(iv) invests excess funds in cash when undervalued stocks cannot be found; and

(v) actively manages currency.

Derivatives (which include futures and shorts) are utilised for risk management purposes and to take opportunities to increase returns. However, the underlying value of derivatives held by the Company may not exceed 100% of the net asset value. The underlying value of long stocks and derivative contracts may not exceed 150% of the portfolio value.

(b) Investments at Fair Value and Derivative Exposure

	2008		2007	
	PHYSICAL $'000	NET EXPOSURE $'000	PHYSICAL $'000	NET EXPOSURE $'000
Japan	**29,244**	**29,244**	51,632	51,632
Other Asia	**31,095**	**30,300**	36,644	30,710
Australia	**87**	**(2,467)**	48	(6,278)
Europe – Euro	**34,602**	**30,045**	36,982	31,369
Europe – Other	**2,279**	**2,279**	7,424	7,424
North America	**40,246**	**7,228**	57,211	12,246
South America	**369**	**(5,173)**	233	233
South Africa	**794**	**794**	1,265	1,265
	138,716	**92,250**	191,439	128,601
Cash and accruals	**19,254**	**65,720**	21,412	84,250
Total	**157,970**	**157,970**	212,851	212,851

The "Physical" column shows the location of the Company's investments.

12. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Investments at Fair Value and Derivative Exposure CONTINUED

The "Net Exposure" represents an approximation of the Investment Portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by subtracting, from the physical position, the principal notional amount of any short (sold) and add any long (bought) derivative 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 net exposure column would show 3%. Conceivably the figure could show a negative exposure which would indicate the Portfolio was net short the Japanese market.

(c) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency. The Investment Manager selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. The Investment Manager may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2008, the Company's principal currency exposure was the US Dollar, which was 25%.

The Investment Manager may use forward foreign exchange contracts, and futures and option contracts on foreign exchange rate contracts, to position the Portfolio in the desired currencies. A currency exposure may be hedged into a different currency from which the exposure is maintained (for example, US Dollar hedges may be used to hedge the currency risk of holding investments in Hong Kong Dollars).

Where there have been major currency movements, or where currencies are perceived to be over or undervalued, the Investment Manager may look for investments whose operating environment has been distorted by the currency as part of the search for undervalued stocks. There may be even opportunities to invest in stocks impacted by a lower currency (for example, export-oriented stocks).

12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

The table below summarises the Company's investment exposure at fair value to foreign exchange risk:

2008	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	**33,433**	**3,109**	**(1,093)**	**35,449**
Other Asia	**32,323**	**20,796**	**(9,603)**	**43,516**
Australia	**1,190**	**27,958**	**(15,600)**	**13,548**
Europe – Euro	**35,593**	**1,243**	**(11,573)**	**25,263**
Europe – Other	**2,358**	**–**	**(3,340)**	**(982)**
North America	**51,910**	**34,012**	**(45,909)**	**40,013**
South America	**369**	**–**	**–**	**369**
South Africa	**794**	**–**	**–**	**794**
Total	**157,970**	**87,118**	**(87,118)**	**157,970**

2007	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	52,790	10,641	(8,313)	55,118
Other Asia	38,114	–	–	38,114
Australia	1,176	50,189	–	51,365
Europe – Euro	41,282	4,418	(14,191)	31,509
Europe – Other	7,441	–	–	7,441
North America	70,550	11,224	(53,968)	27,806
South America	233	–	–	233
South Africa	1,265	–	–	1,265
Total	212,851	76,472	(76,472)	212,851

Forward foreign currency contracts and options on forward currency contracts are adjusted against the "Physical" column to arrive at a "Net Exposure" for each currency grouping.

The Company generally utilises short dated (90 day maturities) currency agreements with high-credit rated counterparties. The existing forward currency contract positions' maturity dates range from 15 days to 75 days.

12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

Foreign exchange risk sensitivity analysis

At 30 June 2008, had the Australian Dollar weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, net profit would have been A$3,889,477/A$3,271,991 higher/lower (2007: A$5,808,478/A$5,326,494 higher/lower). Similarly, had the Australian Dollar weakened/strengthened by 10% against the US Dollar with all other variables held constant, net profit would have been A$4,714,869/ A$2,180,496 higher/lower (2007: A$3,242,933/A$853,449 higher/lower).

The sensitivity analysis is based on the impact of foreign currency movements on monetary assets and liabilities, held at reporting date, such as cash and forward contracts, as well as non-monetary assets, such as equities. The sensitivity analysis shows that the Company is materially affected by exchange rate movements (other things being equal) given the global nature of the investments held.

During 2007/2008, the Australian Dollar remained strong against various major currencies, and because we were underweight in the Australian Dollar, this impacted adversely on the Company's return.

(ii) Interest Rate Risk

Interest rate risk is the possibility the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The overwhelming majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Interest rate movements will affect forward points used in determining gains or losses on forward contracts. This is not capable of precise estimation. The impact of interest rate movements on our investments is also not capable of precise estimation.

At 30 June 2008 and 2007, if interest rates had changed by –/+100 basis points with all other variables held constant, the direct impact on interest receivable would not be significant for the Company.

(iii) Price Risk

As nearly all of the non-monetary investments held by the Company are denominated in currencies other than the Australian Dollar, market prices fluctuate because of a range of factors specific to the individual investments or its issuer, or factors affecting the market in general. (Prices will also fluctuate on the basis of exchange rate movements as discussed above).

12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(iii) Price Risk CONTINUED

Platinum's stock selection process is core to the management of price risk. Platinum adopts a thematic stock selection approach and is referred to as being an "active manager". The Investment Manager seeks a broad range of investments whose businesses and growth prospects are being undervalued by the market. Accordingly, holdings in the Company vary considerably from the make-up of the index. Investment Managers such as Platinum Asset Management seek to outperform the market as represented by an appropriate index.

An additional risk management tool is that the Company may enter into short positions to protect against market movements. At 30 June 2008, the Company maintained short positions against various indices, such as the German DAX index and the Indian Nifty index. This allowed the Company to invest in particular companies in those markets whilst providing some degree of protection against more general adverse market price movements.

At 30 June 2008, the Company was 29% short individual shares and index futures.

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio which comprises investments in listed and unlisted securities. The effect on profit due to a possible change in market factors, as represented by a –/+5% movement in key regional equity indices affecting the market (and stocks) that the Company predominantly invests in, with all other variables held constant, is indicated as follows:

At 30 June 2008, if the United States S&P index had increased/decreased by 5% with all other variables held constant, this would have increased/decreased profit of the Company by approximately A$1,563,136 (2007: A$2,405,092). Similarly, if the Japanese Nikkei 225 index had increased/decreased by 5% with all other variables held constant, this would have increased/decreased profit of the Company by approximately A$1,462,216 (2007: A$2,581,569).

The above analysis is based on the assumption the Company stocks move in correlation with the indices. The indices provided above are a reference point only. Actual movements in stock prices may vary significantly to movements in the index.

The above sensitivity analysis for price risk is unrepresentative of the market exposure for the Company because the Investment Manager does not invest by reference to the weighting or inclusion of a stock in specific index. An investment management style where the composition of the portfolio is by reference to global share index weightings, are often referred to as "index managers". Index managers try to match a particular index by investing in securities that are representative of that index.

12. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Credit Risk

Credit risk measures total counterparty exposure for all counterparties that deal with "non-equity" financial instruments with Platinum. Equities are fully owned by the Investment Manager and there is no risk of default by a counterparty.

For management reporting purposes, the exposure to credit risk for futures, shorts, and forward currency contracts is any unrealised profit on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. For cash, margins, warrants and options, the exposure to credit risk is the full market value of the investment at reporting date.

The table below shows the Company's counterparty credit risk exposure by credit ratings:

	2008 $'000	2007 $'000
Ratings		
AA+/Stable/A-1+	–	2,210
AA/Stable/A-1+	**2,885**	1,093
AA–/Positive/A-1+	–	3,270
AA–/Stable/A-1+	**11,099**	12,321
AA–/Negative/A-1+	**6,075**	–
A+/Negative/A-1	**2,210**	–
A	–	740
A-1+	–	2,751
Total	**22,269**	22,385

Source: Platinum and Standard & Poor's

12. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Credit Risk CONTINUED

The Company implements the following procedures in order to manage its exposure to credit risk:

(i) the Investment Manager only approves counterparties after an assessment of their credit standing. Only counterparties/brokers with high credit ratings are engaged;

(ii) maximum exposure limits are established for each counterparty, to ensure that credit risk is spread amongst a number of counterparties to minimise the risk of default;

(iii) independent monitoring is undertaken of exposure to counterparties;

(iv) legal agreements are entered into for each counterparty;

(v) legal documentation is securely held, independently of the persons responsible with implementing Platinum's investment process; and

(vi) the credit positions of the Company are monitored on a daily basis.

Transactions in listed securities and investments generally, are only entered into with approved brokers. Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment. No collateral is held as security or are any other credit enhancements.

Ageing analysis

The Company's ageing analysis of receivables at 30 June 2008 is $287,769 (0-30 days), $16,773 (31-60 days), $15,892 (61-90 days), $2,501,276 (90+ days). Amounts greater than 61 days are overdue but none are considered to be impaired.

(e) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities.

This includes the risk that the Company:

(i) will not have sufficient funds to settle a transaction on the due date; and

(ii) will be forced to sell financial assets at a value which is less than they are worth.

As at 30 June 2008, the contractual maturity for amounts payable within three months for unsettled trades is $1,141 (2007: $638,078), for other payables including trade creditors and dividends payable is $641,024 (2007: $772,989). The Company has sufficient funds to meet these liabilities as the value of assets realisable in one year or less is $164,136,000 (2007: $213,606,000).

12. FINANCIAL RISK MANAGEMENT CONTINUED

(e) Liquidity Risk CONTINUED

As at 30 June 2008, contractual maturity for settlement of derivative contracts is $nil for amounts payable within one month (2007: $31,629), $nil for amounts payable greater than one month but less than three months (2007: $182,662), $24,525 for amounts payable between three and 12 months (2007: $182,006) and $nil for amounts payable greater than one year but less than five years (2007: $123,984).

(f) Fair Value Estimation

Please refer to Note 1 (c).

(g) Capital Risk Management

The Company considers its capital to comprise ordinary share capital and accumulated retained earnings.

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the world, so to continue to provide returns to shareholders. The Directors have a policy of smoothing dividend payments over time, but this is subject to the return over time from the investment portfolio.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rule requirements. For example, the Company must report its net asset value to the ASX on a monthly basis.

	2008 $'000	2007 $'000
13. FRANKING ACCOUNT		
Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30%	**22,870**	27,377
On tax paid and payable:		
2006/2007	–	3,378
2007/2008	**3,409**	–
Prior year tax provision – franking adjustment	**186**	(35)
Dividend paid – franked @ 30%	**(8,012)**	(7,850)
	18,453	22,870

14. DIVIDENDS (FULLY FRANKED)

	2008 CPS	2008 $'000	2007 CPS	2007 $'000
Paid – Interim fully franked @ 30%	**5.00**	**6,295**	5.00	6,156
Paid – Final fully franked @ 30%	**10.00**	**12,400**	10.00	12,160
	15.00	**18,695**	15.00	18,316

	2008 $'000	2007 $'000
Dividends not recognised at year-end		
In addition to the above dividends, since year-end the Directors have recommended the payment of a final dividend of 5 cents per fully paid Ordinary Share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 14 November 2008 but not recognised as a liability at year-end.		
	6,358	12,400

15. INVESTMENT MANAGER

The Investment Manager Platinum Investment Management Limited, 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 (which includes cash and deposits).

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

The pre-tax performance of the Portfolio for the year to June 2008 was negative 15.97% and the corresponding MSCI's performance was negative 19.79%. Even though there is an outperformance of 3.82% against the MSCI there is a brought forward net underperformance amount of 4.51%. This does not represent an outperformance after the 5% MSCI hurdle. Accordingly a Performance fee is not payable.

The Investment Manager is to be paid a lump sum termination fee of 1.5%, calculated on the value of the Portfolio on the first day of the month in which termination is effective.

15. INVESTMENT MANAGER CONTINUED

The fee is not payable if the termination results from the default or insolvency of the Investment Manager. Additionally, a Performance fee is payable for the period from the last calculation of the Performance fee (as described above) to the date of termination.

Fees paid and payable to the Investment Manager for the year is shown in the table below:

	2008 $'000	2007 $'000
Management fee	**2,888**	3,237
Performance fee	**–**	–
	2,888	3,237

A summary of the salient provisions of the Investment Management Agreement ("**Agreement**") is contained below:

(a) The terms of the Agreement require the Investment Manager to:

(i) invest and manage the Portfolio in accordance with the Agreement;

(ii) confer with the Board of the Company at regular intervals in respect of the investment and management of the Portfolio;

(iii) exercise all due diligence and vigilance in carrying out its functions, powers and duties under the Agreement;

(iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with; and

(v) appoint Mr Neilson as Managing Director of the Company.

(b) Each party is to provide three months notice to terminate the Agreement. The Company, however, may immediately terminate the Agreement where the Investment Manager:

(i) becomes subject to a receiver, receiver and manager, administrative receiver or similar person;

(ii) goes into liquidation;

(iii) ceases to carry on business in relation to its activities as an Investment Manager;

(iv) breaches a material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by the Investment Manager under the Agreement; or

15. INVESTMENT MANAGER CONTINUED

(v) sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking of the Investment Manager or beneficial interest therein, other than to a related body corporate for purposes of corporate reconstruction on terms previously approved in writing by the Company.

The Agreement was entered into to (a) codify changes made to the ASX Listing Rules over the past few years and (b) codify the range of services provided by the Investment Manager to the Company.

16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS FOR EXPENDITURE

No contingent assets or liabilities exist at balance date. The Company has no commitments for uncalled share capital on investments.

17. SEGMENT INFORMATION

The Company operates solely in Australia. While the Company only operates in Australia (the geographical segment), it has investment exposures in different countries.

The geographical locations of those exposures are outlined below.

	2008 $'000 SEGMENT REVENUE	2008 $'000 SEGMENT RESULT	2007 $'000 SEGMENT REVENUE	2007 $'000 SEGMENT RESULT
Japan	**(13,685)**	**(13,745)**	(4,956)	(5,021)
Other Asia	**(2,352)**	**(2,441)**	3,864	3,737
Australia	**1,749**	**1,749**	(1,318)	(1,318)
Europe – Euro	**(11,285)**	**(11,477)**	7,425	7,317
Europe – Other	**(2,829)**	**(2,869)**	1,171	1,153
North America	**(3,808)**	**(3,927)**	5,476	5,361
South America	**(397)**	**(397)**	–	–
South Africa	**(202)**	**(202)**	(558)	(558)
Unallocated Revenue – Net gains on forward currency contracts	**3,043**	**3,043**	6,340	6,340
Unallocated Expenses	**–**	**(4,014)**	–	(4,444)
Total	**(29,766)**	**(34,280)**	17,444	12,567

17. SEGMENT INFORMATION CONTINUED

	2008 $'000 SEGMENT ASSETS	2008 $'000 SEGMENT LIABILITIES	2007 $'000 SEGMENT ASSETS	2007 $'000 SEGMENT LIABILITIES
Japan	**35,449**	**–**	55,118	–
Other Asia	**43,554**	**(29)**	38,499	(343)
Australia	**22,909**	**(738)**	51,816	(9,464)
Europe – Euro	**25,264**	**–**	31,511	–
Europe – Other	**(982)**	**–**	7,441	–
North America	**40,029**	**–**	28,151	(310)
South America	**369**	**–**	233	–
South Africa	**794**	**–**	1,265	–
Total	**167,386**	**(767)**	214,034	(10,117)

18. EVENTS OCCURRING AFTER REPORTING DATE

No significant events have occurred since balance date which would impact the Balance Sheet of the Company as at 30 June 2008 and the results for the year ended on that date.

19. RELATED PARTY INFORMATION

Disclosures relating to the management fees paid and payable to Platinum Investment Management Limited, a related party are set out in Note 15.

20. THE COMPANY

Platinum Capital Limited is a company limited by shares, incorporated and domiciled in New South Wales. Its current registered office and principal place of business is:

Level 8, 7 Macquarie Place
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the review of operations and activities in the Directors' Report.

DIRECTORS' DECLARATION

In the Directors' opinion,

(a) the financial statements and notes set out on pages 36 to 70 are in accordance with the *Corporations Act 2001* including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 22 to 24 of the Director's Report comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

The Directors have been given the declaration by the Managing Director and Finance Director required by section 295A of the *Corporations Act 2001*.

GRAEME GALT
Chairman

KERR NEILSON
Director

Sydney, 8 August 2008

PriceWaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO Box 2650
Sydney NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Platinum Capital Limited, which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of Significant Accounting Policies, other explanatory notes and the Directors' Declaration for Platinum Capital Limited.

Directors' responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website
http://www.pwc.com/au/financialstatementaudit

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Platinum Capital Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 22 to 24 of the Directors' report for the year ended 30 June 2008. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Platinum Capital Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Platinum Capital Limited (the company) for the year ended 30 June 2008 included on Platinum Capital Limited website. The company's directors are responsible for the integrity of the Platinum Capital Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this website.

PRICEWATERHOUSECOOPERS

A J WILSON
Partner

Sydney, 8 August 2008