Platinum®
CAPITAL LIMITED

ANNUAL REPORT 2011

PLATINUM CAPITAL LIMITED ABN 51 063 975 431

Directors

Bruce Phillips
Bruce Coleman
Richard Morath
Kerr Neilson
Andrew Clifford
Philip Howard

Company Secretary

Philip Howard

Investment Manager

Platinum Investment Management Limited

Shareholder Liaison

Liz Norman

Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000
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Share Registrar

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

Auditor and Taxation Advisor

PricewaterhouseCoopers
201 Sussex Street
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 neither guarantee the repayment of capital nor the investment performance of the Company.

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CHAIRMAN'S REPORT

INVESTMENT PERFORMANCE

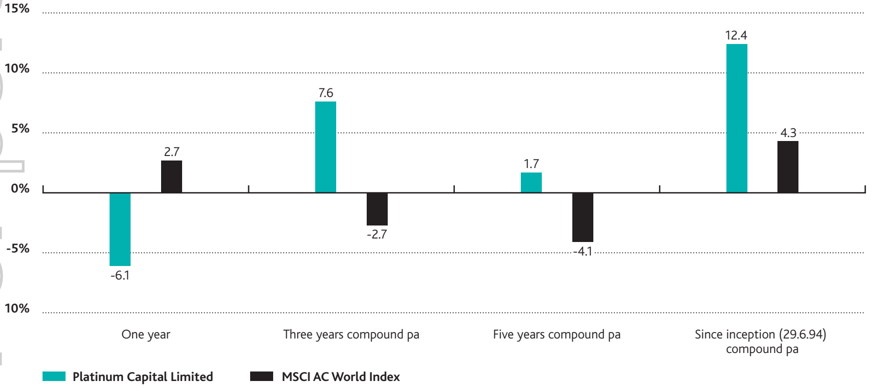
Platinum Capital's recent investment performance has been disappointing.

For the year ending on 30 June 2011, the Company's net asset value decreased by 6.1% pre-tax and by 5.9% after allowing for all tax liabilities, both realised and unrealised. In comparison, the benchmark Morgan Stanley Capital International World Index (MSCI) increased by 2.7% for the 12 months.

However, the returns and performance over the longer-term have been much more satisfactory. Since its inception in 1994, the compound annual appreciation of the Company's assets on a pre-tax basis has been 12.4% compared to the return from the MSCI of 4.3%. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.4% annually over the same 17 years.

The long-term and medium-term out-performance of both the World Index and of the Australian Index demonstrates that the Company can achieve positive returns over time, despite periods of difficult and challenging global markets.

Platinum Capital Limited – Pre-Tax Net Asset Value Return versus MSCI* Index to 30 June 2011
Source: *Platinum and MSCI*



* *Morgan Stanley Capital International All Country World Net Index*

ACCOUNTING STANDARDS

Under Australian Accounting Standards, realised profits and losses are added to or reduced by changes in the market value of the Company's total assets. This can lead to large variations in reported profits from any one year to the next.

In the opinion of your Directors, a more appropriate measure of the Company's results is the change in its net asset value adjusted for dividends.

CORPORATE GOVERNANCE

As shareholders would be aware, Platinum Capital's funds are ultimately managed by Platinum Asset Management. As both companies have common executives, and to ensure the affairs of the Company are managed with appropriate corporate governance, shareholders of Platinum Capital have put in place strong representation of independent directors on the Board.

In the past year, the independent directors are pleased to report they have continued to monitor the performance of the Investment Manager with the full and transparent co-operation of Platinum Asset Management and its management team and are accordingly confident in the integrity and reporting of the Company's financial results to shareholders.

DIVIDENDS

A fully franked final dividend of 1.9 cents per share has been declared, making 5.9 cents per share for the full year. This represents a reduction from last year, in which 10 cents per share was paid for the corresponding 12 months. This reduction has been caused by the current year annual loss and the impact of this loss on the level of retained earnings.

It is not practical or efficient to pay beyond 1.9 cents per share as this would represent a payment out of capital with no attached franking credits.

The Company has distributed nearly all of its retained earnings. As a consequence, future dividend payments will be dependent on future earnings.

CHAIRMAN'S REPORT
CONTINUED

OUTLOOK FOR 2011-2012

Our Investment Manager is of the opinion,

"Deferment and inconsistent policies shroud the global economic vista. Risk assets reflect this with seemingly cautious trend valuations even as companies have reduced their level of capital expenditure and balance sheet indebtedness. Certainly this does not preclude them from being derated further given the prevailing uncertainty. This high level appraisal does not, however, solve the problem facing the individual or pooled investor. Consider the problem facing, for example, a sovereign wealth fund. There is only so much they may want in sovereign bonds, cash or property, as over time, equities have given the most interesting returns. At the same time, many corporations have not completed their global ambitions or are simply sitting on too much cash, which is likely to lead to a significant step-up in mergers and acquisitions.

While the convolutions of the day tempt one to play every market move, the past teaches us to seek out the exceptions and play a long-term game."

FINALLY

I wish to express my appreciation of the efforts of all the people at Platinum over the last year. In particular, Mr Malcolm Halstead retired as Finance Director and Company Secretary during the year and was replaced by Mr Philip Howard. Malcolm had held these positions since the inception of the Company in 1994. On behalf of the Board and our shareholders, I thank Malcolm for his significant contribution.

BRUCE PHILLIPS
CHAIRMAN

2011

FINANCIAL STATEMENTS

PLATINUM CAPITAL LIMITED

SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDERS

No shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 3 August 2011.

DISTRIBUTION OF SECURITIES

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	975
1,001 – 5,000	2,787
5,001 – 10,000	2,503
10,001 – 100,000	4,060
100,001 and over	123
Total number of holders	10,448
(ii) Number of holders of less than a marketable parcel	602
(iii) Percentage held by the 20 largest holders	11.84%

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of listed equity securities as at 3 August 2011 are listed below:

	NUMBER OF SHARES	%
Forsyth Barr Custodians Limited	3,413,260	2.07
Citicorp Nominees Pty Limited	2,107,629	1.28
Groote Eylandt Aboriginal Trust Incorporated	1,999,004	1.21
K Neilson	1,648,038	1.00
Moya Pty Limited	1,412,005	0.86
UBS Wealth Management Australia Nominees Pty Limited	1,214,535	0.74
RBC Dexia Investor Services Australia Nominees Pty Limited	1,015,410	0.62
R Thompson	1,000,000	0.61
Questor Financial Services Limited	976,649	0.59
Feboco Investments Pty Limited	542,481	0.33
I T Heffernan Pty Limited	525,000	0.32
R Ware	523,914	0.32
R I Thompson	458,297	0.28
Navigator Australia Limited	424,464	0.26
Australian Executor Trustees Limited	394,873	0.24
Questor Financial Services Limited	393,327	0.24
Invia Custodian Pty Limited	370,000	0.22
R E Ware Pty Ltd	361,932	0.22
A & X Grant-Smith	359,803	0.22
RBC Dexia Investor Services Australia Nominees Pty Limited	347,874	0.21

SHAREHOLDER INFORMATION

CONTINUED

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 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.

DISTRIBUTION OF ANNUAL REPORT TO SHAREHOLDERS

The Law allows for an "opt in" regime through which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to only mail out an Annual Report to those shareholders who have "opted in".

FINANCIAL CALENDAR

Annual General Meeting	26 October 2011
Ordinary shares trade ex-dividend	10 August 2011
Record (books close) date for dividend	16 August 2011
Dividend paid	1 September 2011

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 (the "Company") 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. The Company is taxed at source and pays shareholders dividends (usually fully franked). This feature distinguishes it from managed investment trust products.

The Company 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 the Company. These are two discrete legal entities. As a shareholder in the Company, 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 globally whose businesses and growth prospects, it believes, 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, is 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 ongoing 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 2011, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

DIRECTORS

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

Bruce Phillips	(Chairman and Non-Executive Director)
Bruce Coleman	(Non-Executive Director)
Richard Morath	(Non-Executive Director)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Director)
Philip Howard	(Director and Company Secretary since 31 March 2011)

Malcolm Halstead was a Director and Company Secretary until his retirement on 31 March 2011.

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 $8,773,000 (2010: net profit $17,235,000) after income tax benefit of $4,344,000 (2010: income tax expense $6,232,000).

DIVIDENDS

Since the end of the financial year, the Directors have declared a 1.9 cents per share ($3,134,000) fully franked final dividend payable to shareholders on 1 September 2011.

A fully franked interim dividend of 4 cents per share ($6,549,000) for the year ended 30 June 2011 was paid on 8 March 2011.

A fully franked final dividend of 5 cents per share ($8,113,000) for the year ended 30 June 2010 was paid on 2 September 2010.

REVIEW OF OPERATIONS

The net loss before tax was $13,117,000 (2010: net profit before tax $23,467,000) and net loss after tax was $8,773,000 (2010: net profit after tax was $17,235,000). Income tax benefit for the year was $4,344,000 (2010: income tax expense $6,232,000).

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 adversely impacted by 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*.

DIRECTORS' REPORT
CONTINUED

NON-AUDIT SERVICES

The Directors, in accordance with advice received from the Audit and Risk 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 below.

	2011 **$**	2010 $
Audit services – statutory	**91,156**	89,371
Taxation services – compliance	**36,208**	40,410
Taxation services – Foreign tax agent	**3,284**	3,562
Total	**130,648**	133,343

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 19.

INFORMATION ON DIRECTORS

Bruce Phillips BSC (HONS)

Chairman since 23 October 2009 and Independent Non-Executive Director since March 2009. (Age 56)

Member of the Audit and Risk Committee.

Mr Phillips has over 30 years of technical, financial and managerial experience in the Global Energy industry. He has worked on projects throughout Australasia, South America, the UK, Southeast Asia and East Africa. He founded AWE Limited in 1997 and was its Managing Director until 2007. He has been a Non-Executive Director of AGL Limited since 2007 and AWE Limited since 2009 and Chairman of AWE Limited since 2010. He was a Non-Executive Director of Sunshine Gas Limited from 2007 to 2008.

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director since April 2004. (Age 61)

Member of the Audit and Risk Committee.

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. Mr Coleman is a Non-Executive Director of Platinum Asset Management Limited.

Richard Morath BA, FIAA, ASIA

Independent Non-Executive Director since March 2009. (Age 62)

Chairman of the Audit and Risk Committee.

Mr Morath has over 36 years experience in the Funds Management and Banking industry. He currently holds several board positions with organisations that operate under the National Australia Group of companies. He is Chairman of Plum, the group vehicle providing member services to the corporate superannuation market and a Director of PFS Nominees, the Plum Trustee, and of MLC Nominees, the trustee for the superannuation business of MLC. He is also a Director of BNZ Life. On 9 August 2010, he was appointed Director of JANA Investment Advisers Pty Limited. Mr Morath held senior and leadership roles with the Commercial Banking Company of Sydney and State Bank of NSW. He has worked as Managing Director of Australian Bank in the 1980s, and was CEO of MLC Retail Funds and CEO of MLC's corporate funds business in the 1990s. Before retiring in December 2001, Mr Morath worked with Lend Lease Corporation as Group Executive and was responsible for relations with media, analysts, shareholders and government.

Kerr Neilson BCOM, ASIP

Managing Director for 17 years. (Age 61)

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.

DIRECTORS' REPORT
CONTINUED

Andrew Clifford BCOM (HONS)
Director for 17 years. (Age 45)

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.

Philip Howard BCOM, CA
Finance Director and Company Secretary since 31 March 2011. (Age 50)

He is a Director of Platinum Investment Management Limited, the Company's Investment Manager and a Director of Platinum Asset Management Limited. Mr Howard has been Platinum's Chief Operating Officer since his appointment to that role on 19 September 2001. Mr Howard is a Chartered Accountant with over 25 years experience in the Financial Services industry. Prior to Platinum, Mr Howard has held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

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 2011.

	BOARD MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS	
NAME	HELD WHILE A DIRECTOR	ATTENDED	HELD WHILE A MEMBER	ATTENDED
B Phillips	4	4	3	3
B Coleman	4	4	3	3
R Morath	4	4	3	3
K Neilson	4	4	–	–
A Clifford	4	4	–	–
P Howard (appointed 31 March 2011)	1	1	–	–
M Halstead (until 31 March 2011)	3	3	–	–

REMUNERATION REPORT (AUDITED)

Principles Used to Determine the Nature and Amount of Remuneration

The Executive Directors review annually 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 P Howard) 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 $
B Phillips	55,000	4,950	59,950
B Coleman	50,000	4,500	54,500
R Morath	50,000	4,500	54,500
Total remuneration	155,000	13,950	168,950

Remuneration paid to B Coleman and R Morath remains unchanged from the previous year. B Phillips was paid $58,239 in 2010. A slight increase in salary occurred as a result of B Phillips being appointed Chairman during the 2010 financial year.

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 that have this authority and responsibility are the directors of Platinum Investment Management Limited.

DIRECTORS' REPORT

CONTINUED

Directors

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

K Neilson
A Clifford
P Howard (appointed 31 March 2011)

M Halstead was employed by Platinum Investment Management Limited until his retirement on 31 March 2011.

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

Key Management Personnel Compensation

The Executive Directors (K Neilson, A Clifford and P Howard) 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 as 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 $400,000 (2010: $364,468) and superannuation of $15,199 (2010: $49,993); A Clifford $527,000 (2010: $969,464) and superannuation of $15,199 (2010: $24,997); P Howard $357,500 and superannuation of $3,800 from the date of his appointment to the Board on 31 March 2011 to 30 June 2011 and M Halstead $236,400 (2010: $314,468) and superannuation of $11,399 (2010: $49,993) from 1 July 2010 until the date of his retirement from the Board on 31 March 2011. In addition, M Halstead received a payment of $118,226, representing accrued annual leave of $24,941 and accrued long service leave of $93,285.

Platinum Investment Management Limited provided for additional long service leave as follows: K Neilson $8,012 (2010: $7,258), A Clifford $5,725 (2010: $7,216) and P Howard $31,742 and provided for an increase/(decrease) in annual leave as follows: K Neilson ($6,130) (2010: ($13,793)), A Clifford ($10,728) (2010: ($4,023)) and P Howard $12,014.

Shareholdings

The number of ordinary shares in the Company that the Directors have a relevant interest at balance date is as follows:

NAME	BALANCE AT 1/07/10	ACQUISITIONS	DISPOSALS	BALANCE AT 30/06/11
B Phillips	–	139,985	–	139,985
B Coleman	200,000	–	–	200,000
R Morath	–	20,000	–	20,000
K Neilson	1,648,039	–	–	1,648,039
A Clifford	1,412,006	–	–	1,412,006
P Howard	–	–	–	–

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.

B Phillips, Chairman and Non-Executive Director

- Commenced on 10 March 2009.
- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $59,950.

B Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $54,500.

R Morath, Non-Executive Director

- Commenced on 27 March 2009.
- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $54,500.

DIRECTORS' REPORT
CONTINUED

Share Based Compensation
No shares or options in the Company 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 will receive a portion of the management fee. They do not receive any Directors' remuneration directly 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 Non-Executive Directors.

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

BRUCE PHILLIPS
CHAIRMAN

KERR NEILSON
DIRECTOR

Sydney, 5 August 2011

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2011, 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, 5 August 2011

Liability limited by a Scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

Platinum Capital Limited ABN 51 063 975 431 (the "Company") is a listed investment company 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 trading as "Platinum Asset Management".

The Company has no employees, other than its Non-Executive Directors. It has no premises, plant & equipment or other physical assets. The Company's investment activities are managed by Platinum Asset Management, in accordance with an Investment Management Agreement. The Company's day-to-day affairs are undertaken by Platinum Asset Management, in accordance with an Administrative Services 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.

1. THE BOARD OF DIRECTORS

Members: Bruce Phillips (Chair), Bruce Coleman, Richard Morath, Kerr Neilson, Andrew Clifford and Philip Howard.

Changes to the Board since last report:
- Malcolm Halstead retired 31 March 2011
- Philip Howard appointed 31 March 2011

1.1 Role of the Board

The Board has adopted a Charter that details the functions and responsibilities of the Board.

The role of the Board is to ensure that:
- 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:

- monitoring the financial position and performance of the Company;
- overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement and Administrative Services Agreement;
- ensuring the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted;
- identifying the principal risks faced by the Company and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- overseeing the integrity of the financial accounts and reporting;
- overseeing communications and reporting to shareholders;
- appointing the Chair, and composition of any Committee, of the Board;
- setting the charters of the delegated Committees of the Board.

1.3 Structure of the Board

The Board currently comprises six Directors: three Non-Executive Directors and three Executive Directors (including the Managing Director).

Recommendation 2.1 of the Governance Principles provides that "[a] majority of the Board should be independent directors". At the time, the Board considered equal representation was appropriate for the Company given its size and purpose. The Non-Executive Chairman has a casting vote where votes are tied.

The qualifications, experience and term of office of the Directors are set out in the Directors' Report on pages 12 to 14.

The Chair of the Board is an independent Director and the roles of Chair and Managing Director (Chief Executive Officer) are not exercised by the same individual.

The Chair is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. The Chair facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and between the Board and Management.

The Managing Director is responsible for ensuring the terms of the Investment Management Agreement and Administrative Services Agreement are fulfilled by Platinum Asset Management.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

1.4 Director Independence

All the current Non-Executive Directors of the Company have been assessed as independent. In reaching its decision, the Board has taken into account the factors outlined below.

The Board regularly assesses the independence of each Director. For this purpose, an Independent Director is a Non-Executive Director that the Board considers to be independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement.

Directors must disclose any material personal or family contract or relationship in accordance with the *Corporations Act 2001*. Directors also adhere to constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the *Corporations Act 2001* and the Company's policies.

Each Director may from time to time have personal dealings with the Company. Some Directors are involved with other companies or professional firms that may from time to time have dealings with the Company.

Details of offices held by Directors with other organisations are set out in the Directors' Report on pages 12 to 14. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

In assessing whether Directors are independent, the Board takes into account (in addition to the matters set out above):

- the specific disclosures made by each Director as referred to above;
- where applicable, the related party dealings referable to each Director, noting whether those dealings are material under accounting standards;
- whether a Director is, or is associated directly with, a substantial shareholder of the Company;
- whether the Director has ever been employed by the Company or any of its subsidiaries;
- whether the Director is, or is associated with, a supplier, professional adviser, consultant to or customer of the Company that is material under accounting standards; and
- whether the Director personally carries on any role for the Company other than as a Director of the Company.

The Board also has regard to the matters set out in the Governance Principles. The Board does not consider that term of service on the Board should be considered as a factor affecting a Director's ability to act in the best interests of the Company.

1.5 Selection and Appointment of Directors

Recommendation 2.4 of the Governance Principles provides that "[t]he Board should establish a nomination committee". Given the size and purpose of the Company, the Board considers a nomination committee is not warranted. The full Board considers the issues that would otherwise be a function of a nomination committee.

When evaluating, selecting and appointing Directors, the Board considers:

- 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.

Under the terms of the Company's Constitution, no Director, other than the Managing Director, may hold office for a continuous period (without re-election) past the longer of three years and the third Annual General Meeting following the Director's appointment (last election). Where eligible, a Director may stand for re-election.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

1.6 Access to Information and Independent Advice

All Directors have unrestricted access to Company records and information.

The Investment Manager provides regular information and reports to the Board (as requested).

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.

1.7 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 has been undertaken. Independent professional advice may be sought as part of this process.

Recommendation 1.2 of the Governance Principles provides that "[c]ompanies should disclose the process for evaluating the performance of senior executives". As 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 above.

2. BOARD COMMITTEES

The Board may establish committees to assist in the execution of its duties and (from time to time) to deal with matters of special importance. Each Committee operates under an approved Charter.

2.1 Audit and Risk Committee

Members: Richard Morath (Chair), Bruce Coleman and Bruce Phillips.

The purpose 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);
- review and monitor risks and the implementation of mitigation measures for those risks as appropriate;
- 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 members of the Committee are Independent Non-Executive Directors.

Attendance at Committee meetings is provided in the Directors' Report on page 14.

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

CORPORATE GOVERNANCE STATEMENT

CONTINUED

2.2 Remuneration Committee

Recommendation 8.1 of the Governance Principles provides that "[t]he Board should establish a remuneration committee". 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 warranted.

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. Independent professional advice may be sought.

Further information is provided in the Remuneration Report set out in the Directors' Report on pages 15 to 18.

Remuneration paid to the Non-Executive Directors for the 2010/2011 reporting year is set out in the Directors' Report on pages 15 to 18.

3. COMPANY AUDITOR

The policy of the Board is to appoint an Auditor that clearly demonstrates competence and independence.

The performance of the 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 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 Auditor, including a breakdown of fees for non-audit services, is provided in the Directors' Report. It is the policy of the Auditor to provide an annual declaration of its independence to the Audit and Risk Committee.

The Auditor is required to attend the Company's Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

4. COMPANY POLICIES

4.1 Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct that 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.

4.2 Trading in Company Securities

The purchase and sale of shares in the Company by Directors is prohibited from the first day of the month until the announcement of the Company's 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.

4.3 Financial Reporting

In respect of the year ended 30 June 2011, 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 that 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.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

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.

4.5 Shareholder Communication

The Board has adopted a Communications Plan that 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.

4.6 Risk Assessment and Management

The Board, through the Audit and Risk 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 Investment Manager and Administrator, Platinum Asset Management, has implemented risk management and compliance frameworks based on ISO 31000:2009 *Risk Management – Principles and Guidelines* 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 and Risk Committee on the effectiveness of its risk management and compliance frameworks with respect to services undertaken for the Company.

4.7 Business Rules of Conduct

The Investment Manager and Administrator, Platinum Asset Management, has established Business Rules of Conduct 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. All employees are asked to sign an annual declaration confirming their compliance with the Business Rules of Conduct.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	2011 $'000	2010 $'000
Investment income			
Dividends		**4,104**	3,802
Interest		**65**	111
Net gains/(losses) on equities/derivatives		**(16,880)**	20,397
Net gains on forward currency contracts		**8,262**	3,719
Net foreign exchange gains/(losses) on overseas bank accounts		**(3,822)**	564
Total investment income		**(8,271)**	28,593
Expenses			
Management fee	15	**3,096**	3,174
Custody		**185**	210
Share registry		**209**	336
Directors' fees		**169**	186
Continuous reporting disclosure		**189**	197
Auditor's remuneration			
– Auditing and review ($91,156, 2010: $89,371)		**91**	89
– Taxation services ($39,492, 2010: $43,972)		**39**	44
Transaction costs		**203**	280
Withholding tax on foreign dividends		**464**	382
Other expenses		**201**	228
Total expenses		**4,846**	5,126
Profit/(loss) before income tax		**(13,117)**	23,467
Income tax expense/(benefit)	2(a)	**(4,344)**	6,232
Profit/(loss) after income tax		**(8,773)**	17,235
Other comprehensive income		**–**	–
Total comprehensive income/(loss) for the year	8	**(8,773)**	17,235
Basic earnings per share (cents per share)	7	**(5.35)**	11.16
Diluted earnings per share (cents per share)	7	**(5.35)**	11.16

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

BALANCE SHEET

AS AT 30 JUNE 2011

	NOTES	**2011 $'000**	2010 $'000
Assets			
Cash and cash equivalents	9(a)	**20,204**	24,630
Financial assets at fair value through profit or loss	3	**178,957**	201,168
Receivables	4	**604**	383
Deferred tax assets	2(b)	**4,944**	1,190
Total assets		**204,709**	227,371
Liabilities			
Payables	5	**3,106**	836
Financial liabilities at fair value through profit or loss	3	**1,325**	5,473
Income tax payable		**–**	412
Deferred tax liabilities	2(c)	**1,132**	1,722
Total liabilities		**5,563**	8,443
Net assets		**199,146**	218,928
Equity			
Contributed equity	6	**195,885**	192,232
Retained profits	8	**3,261**	26,696
Total equity		**199,146**	218,928

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	CONTRIBUTED EQUITY $'000	RETAINED PROFITS $'000	TOTAL $'000
Balance at 1 July 2009		**171,672**	**24,942**	**196,614**
Total comprehensive income for the year		–	17,235	17,235
Transactions with equity holders in their capacity as equity owners:				
Contributions of equity, net of transactions costs:		20,560	–	20,560
Dividends paid	13	–	(15,481)	(15,481)
Balance at 30 June 2010		**192,232**	**26,696**	**218,928**
Total comprehensive income/(loss) for the year		–	(8,773)	(8,773)
Transactions with equity holders in their capacity as equity owners:				
Contributions of equity, net of transactions costs:		3,653	–	3,653
Dividends paid	13	–	(14,662)	(14,662)
Balance at 30 June 2011		**195,885**	**3,261**	**199,146**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	2011 $'000	2010 $'000
Cash flows from operating activities			
Dividends received		**3,934**	3,749
Interest received		**64**	111
Cost of purchases of financial assets		**(129,465)**	(148,613)
Proceeds from sale of financial assets		**140,579**	155,624
Management fees paid		**(3,127)**	(3,145)
Performance fees paid		**–**	(5,147)
Other expenses		**(1,787)**	(1,930)
Income tax paid		**(412)**	(218)
Net cash from operating activities	9(b)	**9,786**	431
Cash flows from financing activities			
Proceeds from issue of shares		**3,653**	20,560
Dividends paid		**(14,685)**	(15,500)
Net cash from financing activities		**(11,032)**	5,060
Net increase/(decrease) in cash and cash equivalents		**(1,246)**	5,491
Cash and cash equivalents held at the beginning of the financial year		**24,630**	18,275
Effects of exchange rate changes on cash and cash equivalents		**(3,180)**	864
Cash and cash equivalents held at the end of the financial year	9(a)	**20,204**	24,630

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The financial report was authorised for issue by the Directors of the Company on 5 August 2011. The Directors have the power to amend the financial report after issue.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including AASB 101: *Presentation of Financial Statements*), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Company, and notes thereto, complies with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of "financial assets/liabilities (including derivative instruments) at fair value through profit or loss".

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

The Balance Sheet is presented in decreasing order of liquidity.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Income Tax CONTINUED

The Company exercises judgement in determining the extent of recognition of deferred tax assets in relation to current period realised and/or unrealised tax losses and whether future realised taxable profits are expected to be sufficient to allow recovery of these losses.

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

Under AASB 139, marketable equity securities are classified in the Balance Sheet as "financial assets at fair value through profit or loss". These include financial assets that have quoted prices in active markets and can be reliably measured. This designation is consistent with Platinum Asset Management's general stock selection policy of selecting investments that are liquid and actively traded. These investments are initially recognised at fair value, excluding transaction costs, which are expensed as incurred. Investments are valued based on quoted "bid" prices on long securities. Gains and losses arising from changes in the fair value of the financial assets are included in the Statement of Comprehensive Income in the period they arise.

In accordance with AIFRS, derivative financial instruments are categorised as "financial assets/liabilities held for trading" and are accounted for at fair value with changes to such values recognised through the Statement of Comprehensive Income in the period they arise. Derivative financial instruments are valued based on quoted "bid" prices for long equity swaps and long futures. Short equity swaps and short futures are valued based on quoted "ask" prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the Statement of Comprehensive Income in the period they arise.

Forward currency contracts are categorised as "financial assets/liabilities held for trading" and are initially recognised at fair value on the date contracts are entered into and are subsequently remeasured at each reporting date. The fair value is the unrealised profit or loss on the foreign currency position (in Australian dollars).

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at reporting date without any deduction for estimated future selling costs. Long securities, long equity swaps and long futures are priced at "bid" prices, while short equity swaps and short futures are priced at "ask" prices.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Recognition/derecognition

The Company recognises financial assets on the date they become party to the purchase contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date.

Financial assets are no longer recognised on the date they become party to the sale contractual agreement (trade date).

(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 on purchases of financial assets at fair value through profit or loss are expensed immediately.

(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 the closing 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 Statement of Comprehensive Income using the effective interest method, which allocates income over the relevant period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Investment Income CONTINUED

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 fee rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(h) Earnings per Share

Basic and diluted earnings per share are 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 Statement of Cash Flows, cash includes deposits at call with financial institutions, cash held in margin accounts and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of financial assets are classified as "cash flows from operating activities", as realised and unrealised gains (and losses) on financial assets represent the Company's main operating activity.

(j) Due to/from Brokers for Unsettled Trades

Amounts due to/from brokers represent payables for securities purchased and receivables for securities sold that have been contracted for, but not yet delivered by the reporting date. Trades are recorded on trade date. Proceeds on sale of investments are usually received between two and five days after trade date. Payables on purchase of investments are usually paid between two and five days after trade date.

(k) Receivables

All receivables are recognised when a right to receive payment is established. Debts that 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(l) Payables

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

(m) Contributed Equity

Ordinary shares are classified as equity.

(n) Dividends

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

(o) Segment Reporting

Under AASB 8: *Operating Segments*, the Company is considered to have a single operating segment. However, the standard requires certain entity-wide disclosures. Refer to Note 17 for further information.

(p) 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.

(q) Goods and Services Tax (GST)

Revenue, expenses, receivables and payables are recognised net of the amount of any 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.

(r) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period.

Our assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9: *Financial instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual periods beginning on or after 1 January 2013).

AASB 9: *Financial Instruments* provides revised guidance on the classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements of AASB 139 in respect of financial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(r) New Accounting Standards and Interpretations CONTINUED

The standard contains two primary measurement categories of financial assets: amortised cost and fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivables. Equity instruments will be measured at fair value with fair value changes in traded equity investments taken to the profit or loss. The standard would not have a significant impact on the Company as its equities and derivatives are already recognised at fair value. The Company will apply the revised standard from 1 July 2013.

(ii) AASB 2010-4: *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project* (effective from 1 January 2011).

AASB 2010-4 makes amendments to various disclosure requirements including AASB 7: *Financial Instruments: Disclosures*, AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting*. The Company does not expect that any adjustments will be necessary as a result of applying the revised rules. The Company will apply the revised standards from 1 July 2011.

(iii) Revised AASB 124: *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011).

The revised AASB 124 simplifies the definition of a "related party", clarifying its intended meaning and eliminating inconsistencies from the definition. The standard would not impact on the disclosures contained in the financial report. The Company will apply the revised standard from 1 July 2011.

(iv) AASB 2009-12: *Amendments to Australian Accounting Standards* AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and *Interpretations* 2, 4, 16, 1039 and 1052 (effective for annual periods beginning on or after 1 January 2011).

The standard contains a variety of "editorial corrections", many of which reflect changes made to the text of equivalent IFRSs by the IASB. These changes will have no impact or effect on the financial report of the Company. The Company will apply the revised standards from 1 July 2011.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(r) New Accounting Standards and Interpretations CONTINUED

(v) AASB 2010-5: *Amendments to Australian Accounting Standards* AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and *Interpretations* 112, 115, 127, 132 and 1042 (effective for annual periods beginning on or after 1 January 2011).

The standard contains a variety of "editorial amendments" to a range of Australian Accounting Standards and Interpretations, many of which reflect changes made to the text of equivalent IFRSs by the IASB. The Company does not expect that any adjustments will be necessary as a result of applying the amendments. The Company will apply the revised standards from 1 July 2011.

(vi) AASB 2010-6: *Amendments to Australian Accounting Standards: Disclosure on Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011).

AASB 2010-6 amends AASB 1: *First-time Adoption of Australian Accounting Standards* and AASB 7: *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposure arising from transfers of financial assets (for example, securitisations) and requires an understanding of the possible effects of any risks that remain with the entity that transfers the financial asset. The amendments will not have any impact on the Company's disclosures. The Company will apply the revised standard from 1 July 2011.

	2011 $'000	2010 $'000
2. INCOME TAX		
(a) The income tax expense/(benefit) attributable to profit/(loss) comprises:		
Current income tax provision	–	1,744
Deferred tax liabilities	**(590)**	727
Deferred tax assets	**(3,754)**	3,761
Income tax expense/(benefit)	**(4,344)**	6,232
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/(benefit)	**(13,117)**	23,467
Prima facie income tax on profit/(loss) at 30%	**(3,935)**	7,040
Reduce tax payable		
Previously unrecognised tax losses now recouped	–	(526)
Allowable credits	**(409)**	(282)
Income tax expense/(benefit)	**(4,344)**	6,232
(b) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Auditing and review	**13**	12
Taxation services	**8**	8
Shareholder communication and reporting	**45**	53
Capital expenditure not immediately deductible	**41**	55
Financial asset payments not immediately deductible	**12**	–
Unrealised losses on financial assets	**1,832**	1,062
Current period realised tax losses	**2,993**	–
Deferred tax assets	**4,944**	1,190
(c) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Dividends receivable	**114**	60
Accounting/tax cost on investments	**1,018**	1,662
Deferred tax liabilities	**1,132**	1,722

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

	2011 $'000	2010 $'000
3. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Financial assets		
Equity securities	**178,819**	198,409
Derivatives	**65**	2,759
Foreign currency contracts	**73**	–
Financial assets	**178,957**	201,168
Financial liabilities		
Derivatives	**1,325**	565
Foreign currency contracts	**–**	4,908
Financial liabilities	**1,325**	5,473
Financial assets less liabilities	**177,632**	195,695

Refer to Note 1(c) for the accounting policy concerning fair value measurement.

4. RECEIVABLES

	2011 $'000	2010 $'000
Proceeds on sale of financial assets	**96**	50
Interest receivable	**2**	2
Goods and Services Tax	**35**	38
Dividends receivable	**375**	205
Prepayments	**88**	88
Sundry debtors	**8**	–
	604	383

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. Information relating to the ageing of receivables is shown in Note 12.

5. PAYABLES

	2011 $'000	2010 $'000
Payables on purchase of financial assets	**2,534**	170
Trade creditors (unsecured)	**500**	571
Unclaimed dividends payable to shareholders	**72**	95
	3,106	836

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. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

6. CONTRIBUTED EQUITY

		2011 QUANTITY	2011 $'000	2010 QUANTITY	2010 $'000
Opening balance		**162,258,819**	**192,232**	148,766,069	171,672
Reinvestment of unclaimed dividends	10-Sep-09 (b)	–	–	12,103	20
Dividend reinvestment plan	17-Nov-09 (a)	–	–	1,224,860	1,874
Share Purchase Plan	3-Feb-10 (c)	–	–	10,831,029	16,571
Dividend reinvestment plan	9-Mar-10 (a)	–	–	1,412,813	2,077
Reinvestment of unclaimed dividends	19-May-10 (b)	–	–	11,945	18
Dividend reinvestment plan	2-Sep-10 (a)	**1,460,985**	**2,002**	–	–
Reinvestment of unclaimed dividends	17-Sep-10 (b)	**13,089**	**18**	–	–
Dividend reinvestment plan	8-Mar-11 (a)	**1,186,011**	**1,577**	–	–
Reinvestment of unclaimed dividends	19-Mar-11 (b)	**40,511**	**56**	–	–
Closing balance		**164,959,415**	**195,885**	162,258,819	192,232

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

(b) 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.

(c) On 23 October 2009, the Company announced a Share Purchase Plan (SPP) through which eligible Australian and New Zealand shareholders are able to purchase shares up to a maximum value of A$15,000. The issue price being equal to a 5% discount of the weighted average price for the five trading days before the allotment date of 3 February 2010. On 3 February 2010, 10,831,029 shares were allotted.

6. CONTRIBUTED EQUITY CONTINUED

Ordinary Shares

At 30 June 2011, ordinary shares on issue totalled 164,959,415 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 shares held.

At the 2010 Annual General Meeting, a non-binding resolution was passed permitting the Directors to consider implementing a capital management program. As at the date of this report, there has been no issue or buy-back of ordinary shares under this program.

	2011	2010

7. EARNINGS PER SHARE

Basic earnings per share – cents per share	**(5.35)**	11.16
Diluted earnings per share – cents per share	**(5.35)**	11.16
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**163,864,253**	154,368,621

	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**(8,773)**	17,235

There have been no conversions to, calls of, or subscriptions for ordinary shares during 2010/2011, other than those issued under the Dividend Reinvestment Plan and reinvestment of unclaimed dividends. As there are no potential ordinary shares, diluted earnings per share equals basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

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	NOTES	2011 $'000	2010 $'000
8. RETAINED PROFITS			
Retained earnings at the beginning of the financial year		**26,696**	24,942
Net profit		**(8,773)**	17,235
Dividends provided for or paid	13	**(14,662)**	(15,481)
Retained earnings at the end of the financial year		**3,261**	26,696

	2011 $'000	2010 $'000
9. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of Cash		
Cash at bank*	**85**	101
Cash on deposit**	**20,119**	24,529
	20,204	24,630

* Includes $68,000 (2010: $90,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $7,111,000 (2010: $16,654,000) 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 0.00% to 4.75% (2010: 0.10% to 5.20%).

9. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

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

	2011 $'000	2010 $'000
Profit after income tax	**(8,773)**	17,235
Decrease/(increase) in investment securities and forward currency contracts	**18,063**	(18,112)
Decrease/(increase) in cash due to exchange rate movements	**3,180**	(864)
Decrease/(increase) in settlements receivable	**(46)**	1,364
Decrease/(increase) in dividends receivable	**(170)**	(53)
Decrease/(increase) in Goods and Services Tax receivable	**3**	(3)
Decrease/(increase) in sundry debtors	**(8)**	40
Decrease/(increase) in prepayments	**–**	(8)
Decrease/(increase) in income tax receivable	**–**	1,114
(Decrease)/increase in accrued expenses	**(71)**	(5,084)
(Decrease)/increase in settlements payable	**2,364**	(98)
(Decrease)/increase in income tax payable	**(412)**	412
Decrease/(increase) in deferred tax assets	**(3,754)**	3,761
(Decrease)/increase in deferred tax liabilities	**(590)**	727
Net cash from operating activities	**9,786**	431

(c) Non-Cash Financing Activities

During the year 2,646,996 (2010: 2,637,673) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash under the Dividend Reinvestment Plan during the year totalled $3,578,944 (2010: $3,951,000).

NOTES TO THE FINANCIAL STATEMENTS

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	2011 $'000	2010 $'000
10. STATEMENT OF NET ASSET VALUE		
Reconciling Net Asset Value in accordance with AIFRS to that reported to the ASX*		
Net Asset Value per Balance Sheet	**199,146**	218,928
Add:		
Difference between bid price under Australian Accounting Standards and last sale price	**175**	50
Less:		
Deferred income tax asset on movements on Australian Accounting Standards and last sale price	**(53)**	(15)
Net deferred income tax asset in respect of unused current and future year tax losses	**(3,759)**	–
Net Asset Value	**195,509**	218,963
Net Asset Value – cents per share	**118.52**	134.95

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

11. INVESTMENT PORTFOLIO

	QUANTITY	2011 FAIR VALUE $'000
Japan		
Ain Pharmaciez	17,300	**658**
Alpine Electronics	105,200	**1,349**
CyberAgent	245	**796**
Dai Ichi Life Insurance	1,030	**1,338**
Denso	99,230	**3,422**
Hamamatsu Photonics	30,800	**1,232**
Hirano Tecseed	88,000	**1,093**
Ibiden	14,900	**431**
Inpex	139	**949**
JSR	19,533	**350**
Kureha	119,700	**545**
Mitsubishi Gas and Chemical	104,282	**707**
Mitsubishi UFJ Financial Group	267,000	**1,206**
Miura	65,900	**1,771**
Nagano Bank	2,100	**4**
NGK Insulators	17,539	**303**
Nintendo	2,220	**385**
Obic	8,410	**1,457**
Pal	65,072	**2,008**
Shin-Etsu Chemical	96,939	**4,680**
SMC	3,566	**595**
Sumitomo Electric Industries	113,070	**1,525**
Suzuken	40,100	**857**
T&D	109,370	**2,412**
Toray Industries	67,164	**460**
Toyota Industries	88,108	**2,686**
Toyota Motor	11,000	**413**

NOTES TO THE FINANCIAL STATEMENTS

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	QUANTITY	2011 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
Japan CONTINUED		
Ushio Denki	85,459	**1,559**
Yahoo Japan	1,476	**472**
Yamanashi Chuo Bank	57,895	**226**
Total Japan		**35,889**
Other Asia		
China		
Anton Oilfield Services	12,764,100	**2,035**
China Mobile	150,000	**1,294**
China Molybdenum	584,964	**458**
China Resources Enterprise	514,698	**1,946**
EcoGreen Fine Chemicals	10,969,682	**3,182**
E-House China	120,000	**1,095**
Guangzhou Automobile	886,063	**1,007**
Hsu Fu Chi International	770,000	**2,309**
Hunan Non-Ferrous Metal	429,026	**143**
Ping An Insurance – long equity swap	38,709	**(20)**
Ping An Insurance – H	65,626	**630**
Ping An Insurance – P note	228,729	**1,588**
Shengli Oil & Gas Pipe	11,336,200	**1,821**
Sina	2,619	**254**
TravelSky Technology – H Bonus	406,270	**237**
TravelSky Technology – H	239,463	**140**
Trina Solar	17,042	**356**
		18,475

11. INVESTMENT PORTFOLIO CONTINUED

Other Asia CONTINUED

	QUANTITY	2011 FAIR VALUE $'000
Hong Kong		
China Resources Logic	1,027,500	**1,333**
Computime	8,232,300	**740**
Henderson Land Development	194,823	**1,169**
Kerry Properties	16,072	**72**
		3,314
India		
Housing Development and Infrastructure	100,152	**334**
Unitech	1,046,655	**699**
United Breweries	101,000	**319**
United Spirits	38,055	**776**
		2,128
Indonesia		
Ramanaya Lestari Sentosa	5,312,700	**445**
		445
Korea		
Kangwon Land	57,551	**1,437**
Korea Investment	50,459	**1,590**
Kospi Future Sept 2011	(19)	**13**
KT	7,370	**262**
Samsung Electronics	4,495	**3,237**
SK Telecom	2,274	**320**
		6,859
Malaysia		
Gamuda Bhd	234,579	**276**
		276

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

11. INVESTMENT PORTFOLIO CONTINUED

	QUANTITY	2011 FAIR VALUE $'000
Other Asia CONTINUED		
Saudi Arabia		
Almarai – long equity swap	16,600	**11**
		11
Taiwan		
Polaris Securities	4,047,284	**2,760**
		2,760
Thailand		
Bangkok Bank – Foreign	200,924	**960**
Bangkok Bank – NVDR	732,060	**3,499**
		4,459
Vietnam		
Vietnam Dairy Product – long equity swap	221,397	**63**
Vietnam Enterprise	537,600	**872**
		935
Total Other Asia		**39,662**
Australia		
Allied Gold Mining	153,794	**455**
Fortescue Metals	(89,904)	**(24)**
Ivanhoe Australia	152,578	**366**
Ivanhoe Warrant Expiry 20092011	84,750	**1**
Newcrest Mining	46,804	**1,764**
Vantage Goldfields	1,000,000	**140**
Vantage Goldfields – Call Option	500,000	**–**
Total Australia		**2,702**

11. INVESTMENT PORTFOLIO CONTINUED

	QUANTITY	2011 FAIR VALUE $'000
Europe – Euro		
France		
Areva	2,039	**71**
Carrefour	48,011	**1,839**
CFAO	15,585	**628**
FRTR – swap	641	**(22)**
Groupe Eurotunnel	85,476	**891**
Pernod Ricard	30,162	**2,773**
PPR	13,339	**2,216**
Sanofi-Aventis	51,000	**3,820**
		12,216
Germany		
Adidas	21,200	**1,567**
Allianz	27,668	**3,597**
Bayerische Motoren Werke	44,300	**4,115**
Deutsche Boerse	49,810	**3,520**
Henkel KGAA – Vorzug	65,395	**4,206**
Hornbach Baumarkt	36,656	**2,526**
Hornbach	11,860	**1,805**
Infineon Technologies	220,062	**2,306**
Qiagen	86,460	**1,534**
Siemens	27,322	**3,491**
		28,667
Italy		
Buzzi Unicem	36,801	**477**
		477

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

	QUANTITY	2011 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
Europe – Euro CONTINUED		
Netherlands		
Royal Dutch Shell	83,015	**2,749**
		2,749
Spain		
Amadeus IT	70,875	**1,371**
		1,371
Total Europe – Euro		**45,480**
Europe – Other		
Sweden		
Atlas Copco	(60,108)	**(72)**
SKF	(56,178)	**(23)**
		(95)
Switzerland		
Roche	12,000	**1,871**
		1,871
United Kingdom		
Petrofac	(24,003)	**(3)**
Reed Elsevier	173,414	**1,470**
Vodafone Group	427,000	**1,057**
		2,524
Total Europe – Other		**4,300**

11. INVESTMENT PORTFOLIO CONTINUED

North America

	QUANTITY	2011 FAIR VALUE $'000
Canada		
Canfor Pulp Products	44,966	**761**
Domtar	17,883	**1,572**
Great Basin Gold	48,927	**93**
Nexen	166,420	**3,492**
Suncor Energy	11,025	**402**
Thompson Creek Metal	5,000	**47**
West Fraser Timber	6,700	**337**
		6,704
United States		
Advanced Micro Devices	264,677	**1,723**
Bank of America	294,500	**3,008**
Barrick Gold	20,905	**883**
Caliper Life Sciences	52,814	**399**
Cisco Systems	140,801	**2,049**
Electronic Arts	68,788	**1,514**
Ener1	21,076	**21**
Foster Wheeler	75,384	**2,135**
Gilead Sciences	47,100	**1,819**
Guess?	46,056	**1,807**
Infinera	89,237	**574**
International Paper	38,065	**1,058**
Jacobs Engineering	52,857	**2,131**
Johnson & Johnson	53,000	**3,285**
KBR	27,058	**951**
Marvell Technology	143,734	**1,979**
Mercer International	89,000	**838**
Merck	47,200	**1,553**

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

	QUANTITY	2011 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO CONTINUED		
North America CONTINUED		
United States CONTINUED		
MGIC Investment	127,000	**706**
Microsoft	179,000	**4,337**
Pepsico	26,946	**1,769**
Retail Basket	(70,492)	**(481)**
Russell 2000 Mini Index Future Sep 2011	(135)	**(433)**
S&P 500 Machinery Index	(9,266)	**(217)**
Shanda Interactive Entertainment	20,577	**742**
Smurfit Stone ESCROW	225,000	**–**
Sotheby's	30,375	**1,232**
SPDR S&P Retail ETF	(22,000)	**(14)**
Stillwater Mining	41,919	**861**
Teva Pharmaceuticals	13,000	**584**
Wynn Resorts	(3,000)	**(38)**
Yahoo	132,000	**1,850**
		38,625
Total North America		**45,329**
South America		
Brazil		
Grendene	226,500	**1,185**
		1,185
Peru		
Bayer Peru – Trabajo	77,287	**341**
Peru Holding De Turismo – Trabajo	1,667,523	**25**
		366
Total South America		**1,551**

11. INVESTMENT PORTFOLIO CONTINUED

	QUANTITY	2011 FAIR VALUE $'000
Africa		
South Africa		
AngloGold Ashanti – ADR	37,741	**1,481**
		1,481
Zimbabwe		
Dawn Securities	1,806,672	**17**
Innscor Africa	1,545,692	**908**
Murray and Roberts	700,000	**104**
Padenga	1,297,989	**79**
Riozim	48,989	**57**
		1,165
Total Africa		**2,646**
Liquids		
Outstanding settlements		**(2,063)**
Forward currency contracts		**73**
Cash on deposit		**20,119**
Total Liquids		**18,129**
Total Investment Portfolio reconciles to Note 12(c)		**195,688**
Accounted for in payables (payables on purchase of investments)		**2,534**
Accounted for in receivables (proceeds on sale of investments)		**(96)**
Accounted for in receivables (dividends receivable)		**(375)**
Accounted for in Financial Assets and Liabilities ($177,632,000 as per Note 3) and Cash on Deposit ($20,119,000 as per Note 9(a))		**197,751**

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

Number of transactions – 1,818

Total brokerage paid – $353,895
($203,372 on purchases and $150,523 on sales)

NOTES TO THE FINANCIAL STATEMENTS

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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 Platinum Asset Management.

The risks that Platinum Asset Management is exposed to include: market risk (including currency and price risk), credit risk and liquidity risk.

Platinum Asset Management's investment style:

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

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

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

(iv) actively manages currency.

Derivatives (which include equity swaps and futures) are utilised for risk management purposes and to take opportunities to increase returns.

The underlying value of derivatives held by the Company may not exceed 100% of the portfolio value. The underlying value of long stocks and derivative contracts may not exceed 150% of the portfolio value. Where options are employed, the underlying value will be delta-adjusted exposure. Compliance with these limits is reviewed by the Board on a continuous basis and the Audit and Risk Committee on a monthly basis. The Company does not generally enter or trade derivatives for speculative purposes.

(b) Investments at Fair Value and Derivative Exposure

2011	PHYSICAL $'000	LONG DERIVATIVE CONTRACTS $'000	SHORT DERIVATIVE CONTRACTS $'000	NET EXPOSURE $'000
Japan	**35,889**	**–**	**–**	**35,889**
Other Asia	**39,594**	**1,757**	**(2,294)**	**39,057**
Australia	**2,726**	**1**	**(572)**	**2,155**
Europe – Euro	**45,502**	**–**	**(22)**	**45,480**
Europe – Other	**4,398**	**–**	**(3,534)**	**864**
North America	**46,513**	**–**	**(26,545)**	**19,968**
South America	**1,551**	**–**	**–**	**1,551**
Africa	**2,646**	**–**	**–**	**2,646**
	178,819	**1,758**	**(32,967)**	**147,610**

12. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Investments at Fair Value and Derivative Exposure CONTINUED

2010	PHYSICAL $'000	LONG DERIVATIVE CONTRACTS $'000	SHORT DERIVATIVE CONTRACTS $'000	NET EXPOSURE $'000
Japan	40,210	–	(28,584)	11,626
Other Asia	52,470	2,156	–	54,626
Australia	350	117	(1,508)	(1,041)
Europe – Euro	47,588	–	(2,138)	45,450
Europe – Other	4,338	–	(6,298)	(1,960)
North America	47,259	–	(33,022)	14,237
South America	1,536	–	–	1,536
Africa	4,658	–	–	4,658
	198,409	2,273	(71,550)	129,132

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

The Investments shown above in the "Physical" column (totalling $178,819,000 for 2011 and $198,409,000 for 2010) reconcile to the fair value of equity securities disclosed in Note 3.

The "Long/Short Derivative Contracts" columns include the notional value of long/short equity swaps and futures. The "Net Exposure" column 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 adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. 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 that the Portfolio was net short the Japanese market.

NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL RISK MANAGEMENT CONTINUED

(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 due to 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. Platinum Asset Management selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. Platinum Asset Management may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2011, the Company's principal currency exposures were in European currencies (28%), Asian currencies ex the Hong Kong Dollar (25%), US Dollar (16%) and Australian Dollar (12%).

Platinum Asset Management 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, Platinum Asset Management may look for investments whose operating environment has been distorted by the lower 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. The total physical and net exposure reconciles to the total investment portfolio in Note 11.

2011	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	**39,645**	**–**	**(35,762)**	**3,883**
Other Asia	**40,894**	**29,007**	**(431)**	**69,470**
Australia	**3,794**	**32,413**	**(13,318)**	**22,889**
Europe – Euro	**46,881**	**6,159**	**(9,270)**	**43,770**
Europe – Other	**4,897**	**7,721**	**(1,974)**	**10,644**
North America	**58,026**	**31,274**	**(45,819)**	**43,481**
South America	**1,551**	**–**	**–**	**1,551**
Africa	**–**	**–**	**–**	**–**
	195,688	**106,574**	**(106,574)**	**195,688**

2010	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	42,917	–	(37,020)	5,897
Other Asia	54,804	11,623	–	66,427
Australia	(3,717)	56,170	(16,450)	36,003
Europe – Euro	47,755	11,942	(26,250)	33,447
Europe – Other	5,008	15,978	(7,974)	13,012
North America	70,806	37,225	(45,244)	62,787
South America	1,536	–	–	1,536
Africa	1,200	–	–	1,200
	220,309	132,938	(132,938)	220,309

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 maturity) currency agreements with high-credit rated counterparties. The existing forward currency contract positions' maturity dates range from 15 days to 75 days.

NOTES TO THE FINANCIAL STATEMENTS

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12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

Foreign exchange risk sensitivity analysis

At 30 June 2011, had the Australian Dollar weakened/strengthened by 10% against the US Dollar with all other variables held constant, net profit would have been A$3,569,183/A$2,903,485 higher/lower (2010: A$7,145,154/A$5,846,035 higher/lower). Likewise, had the Australian Dollar weakened/strengthened by 10% against the Euro with all other variables held constant, net profit would have been A$4,865,737/A$3,981,058 higher/lower (2010: A$3,714,836/A$3,039,412 higher/lower). Similarly, had the Australian Dollar weakened/strengthened by 10% against the Hong Kong Dollar with all other variables held constant, net profit would have been A$2,345,546/A$1,829,083 higher/lower (2010: A$2,928,515/A$2,396,058 higher/lower).

A sensitivity of 10% has been selected as this is considered reasonably possible given the volatility of current exchange rates.

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.

Throughout 2010/2011, the Company had minimal exposure to the Australian Dollar and thus returns have reduced due to its significant appreciation.

(ii) Interest Rate Risk

Interest rate risk is the possibility the fair value or future cash flows of a financial instrument will fluctuate due to 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. Therefore, there is no liability exposure to interest rate risk.

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on forward contracts. The impact of interest rate movements on our investments is not capable of precise estimation.

At 30 June 2011 and 2010, 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.

12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(iii) Price Risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general.

Platinum Asset Management'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". Platinum Asset Management seeks a broad range of investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, holdings in the Company may vary considerably from the make-up of a general 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 equity swaps and futures to protect against market movements. At 30 June 2011, the Company maintained short positions against company specific stocks and market indices. The use of index derivatives allows the Company to invest in specific companies, whilst providing some degree of protection against more general adverse market price movements.

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio which comprises investments in listed and unlisted securities and derivatives. 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 securities/derivatives) that the Company predominantly invests in, with all other variables held constant, is indicated as follows:

At 30 June 2011, if the German DAX index had increased/decreased by 5% with all other variables held constant, this would have increased/decreased profit of the Company by approximately A$1,433,339 (2010: A$1,373,197). 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$1,794,466 (2010: A$2,010,508).

A sensitivity of 5% has been selected as this is considered reasonably possible. However, given the present volatility of global markets, increases or decreases greater than this are possible.

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

12. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Market Risk CONTINUED

(iii) Price Risk CONTINUED

The above sensitivity analysis for price risk is unrepresentative of the market exposure for the Company as Platinum Asset Management does not invest by reference to the weighting or inclusion of a security in a specific index. An investment management style where the composition of the portfolio is by reference to global share index weightings is often referred to as an "index manager". An "index manager" tries to match a particular index by investing in securities that are representative of that index.

(d) Credit Risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically "non-equity" financial instruments).

The exposure to credit risk for futures, equity swaps, and forward currency contracts is any unrealised profit, margins and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date.

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

	2011 $'000	2010 $'000
Ratings		
AA	**474**	558
A+	**18,608**	21,539
A	**3,483**	8,883
AA–	**–**	640
BBB+	**75**	–
Total	**22,640**	31,620

Source: Platinum and Standard & Poor's

Platinum Asset Management regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by spreading exposure over a number of counterparties by signing standard ISDA (International Swaps and Derivatives Association) master agreement and net settlement contracts, employing two-way symmetrical margining of unrealised profits and losses and by controlling the duration of contracts to be short-term.

Transactions in listed securities and investments are entered into with approved brokers.

12. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Credit Risk CONTINUED

Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment.

Ageing analysis

The Company's ageing analysis of receivables at 30 June 2011 is $180,996 (0-30 days) (2010: $228,491), $19,303 (31-60 days) (2010: $44,065), $54,943 (61-90 days) (2010: $44,485), $349,043 (90+ days) (2010: $65,990). No amounts are past due or 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.

At 30 June 2011, the contractual maturity for amounts payable in no more than three months for unsettled trades which total $2,533,544 (2010: $170,425), trade creditors and dividends payable which total $572,629 (2010: $666,351) and between three and six months for income tax payable which total $nil (2010: 411,778).

At 30 June 2011, the contractual maturity for settlement of derivative contractual outflows is $1,324,959 (2010: $564,624), and for the settlement of foreign currency contractual outflows the amount is $nil (2010: $4,908,376). At 30 June 2011, there are no other contractual amounts due or payable after three months.

The Company has sufficient funds to meet these liabilities as the value of assets realisable in one year or less is $198,432,000 (2010: $220,176,000).

Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

Except for equity swaps and futures, the maximum capital risk resulting from financial instruments is determined by the fair value of financial instruments. Potential losses from equity swaps and futures are limited to available capital.

The risk management guidelines adopted are designed to minimise liquidity risk through:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

12. FINANCIAL RISK MANAGEMENT CONTINUED

(e) Liquidity Risk CONTINUED

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

Platinum Asset Management prepares daily cash forecasts for the Company and maintains sufficient cash to meet normal operating requirements. The Company has a policy of not borrowing money, other than on a short-term basis for settlement, trading and like purposes.

(f) Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (level 2); and

(iii) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

At 30 June 2011, $176,782,000 (2010: $194,900,000) of financial assets and liabilities at fair value through profit or loss are classified as level 1, $850,000 (2010: $795,000) as level 2 and $nil (2010: nil) as level 3.

(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. In addition, the Company may adjust its capital structure by issuing new shares, via rights issues, buying back its shares, via share buy-back programs.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules requirements. For example, the Company must report its net asset value to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

13. DIVIDENDS (FULLY FRANKED)

	2011 CPS	2011 $'000	2010 CPS	2010 $'000
Paid – 17 November 2009	–	–	5.00	7,439
Paid – 9 March 2010	–	–	5.00	8,042
Paid – 2 September 2010	**5.00**	**8,113**	–	–
Paid – 8 March 2011	**4.00**	**6,549**	–	–
		14,662		15,481

Dividends not recognised at year-end

	2011 $'000	2010 $'000
In addition to the above dividends, since year-end the Directors have declared the payment of a dividend of 1.9 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 1 September 2011, but not recognised as a liability at year-end is:	**3,134**	8,113

14. FRANKING ACCOUNT

	2011 $'000	2010 $'000
Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30%	**14,240**	19,131
On tax paid and payable	–	1,744
Dividend paid – franked @ 30%	**(6,284)**	(6,635)
	7,956	14,240

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

15. INVESTMENT MANAGER

The Investment Manager, Platinum Asset Management, 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.

At 30 June 2011, the annual pre-tax performance of the Portfolio was negative 5.94% and the corresponding MSCI was positive 2.67%. This represents an underperformance of 8.61% against the MSCI. Accordingly, a performance fee has not been accrued. No performance fee has been paid in relation to either the current period or the previous period.

Platinum Asset Management is to be paid a lump sum termination fee of 1.5%, calculated on the value of the Portfolio on the first day of the month in which termination is effective. The fee is not payable if the termination results from the default or insolvency of Platinum Asset Management. 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 Platinum Asset Management for the year is shown in the table below:

	2011 $'000	2010 $'000
Management fee	**3,096**	3,174
	3,096	3,174

15. INVESTMENT MANAGER CONTINUED

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

(a) The terms of the Agreement require Platinum Asset Management 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 may immediately terminate the Agreement where Platinum Asset Management:

- (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
- (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 and (b) codify the range of services provided by Platinum Asset Management to the Company.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS FOR EXPENDITURE

No contingent assets or liabilities exist at 30 June 2011 and 30 June 2010. The Company has no commitments for uncalled share capital on investments.

17. SEGMENT INFORMATION

The Company is organised into one main operating segment with the one key function of the investment of funds internationally. AASB 8 requires the disclosure of revenue by geographical location and investment type.

(a) Revenue by geographical location is outlined below.

	2011 $'000	2010 $'000
Japan	**(2,813)**	(2,086)
Other Asia	**1,034**	13,823
Australia	**(449)**	462
Europe – Euro	**7,517**	7,846
Europe – Other	**(2,237)**	(1,980)
North America	**(18,909)**	6,342
South America	**54**	705
South Africa	**(730)**	(238)
Unallocated revenue – Net gains on forward currency contracts	**8,262**	3,719
Total	**(8,271)**	28,593

(b) Revenue by investment type is outlined below.

	2011 $'000	2010 $'000
Equity securities	**799**	30,992
Derivatives	**(13,575)**	(6,793)
Foreign currency contracts	**8,262**	3,719
Bank accounts	**(3,757)**	675
Total	**(8,271)**	28,593

18. EVENTS OCCURRING AFTER BALANCE SHEET DATE

No significant events have occurred since balance date that would impact the Balance Sheet of the Company as at 30 June 2011 and the results for the year ended on that date.

19. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Remuneration

Non-Executive Directors

During the financial year the Company paid the Non-Executive Directors (B Phillips, B Coleman and R Morath) salaries of $155,000 (2010: $170,707) and superannuation of $13,950 (2010: $29,364).

Executive Directors

The Executive Directors (K Neilson, A Clifford and P Howard) are all employees of the Investment Manager, Platinum Asset Management, and are not remunerated by the Company. M Halstead was employed by Platinum Investment Management Limited until his retirement on 31 March 2011. A portion of the compensation paid by Platinum Asset Management to its employees is in relation to managing the affairs of the Company. Platinum Asset Management has not made any determination as to what proportion of its employees' compensation relates to Platinum Capital Limited. Platinum Asset Management paid Executive Directors of the Company short-term compensation of $1,520,900 (2010: $1,648,400) and superannuation of $45,597 (2010: $124,983). In addition, M Halstead received a payment of $118,226 representing accrued annual leave of $24,941 and accrued long service leave of $93,285.

Platinum Asset Management provided for the Executive Directors total additional long service leave of $45,479 (2010: $20,454) and provided a decrease in total annual leave of ($4,844) (2010: decrease $37,931).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

19. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

(b) Interests of Non-Executive and Executive Directors in Shares

B Phillips held nil shares at 1 July 2010, acquired 139,985 shares during the year, disposed of nil shares during the year and held 139,985 shares at 30 June 2011.

B Coleman held 200,000 shares at 1 July 2010, acquired nil shares during the year, disposed of nil shares during the year and held 200,000 shares at 30 June 2011.

R Morath held nil shares at 1 July 2010, acquired 20,000 shares during the year, disposed of nil shares during the year and held 20,000 shares at 30 June 2011.

K Neilson held 1,648,039 shares at 1 July 2010, acquired nil shares during the year, disposed of nil shares during the year and held 1,648,039 shares at 30 June 2011.

A Clifford held 1,412,006 shares at 1 July 2010, acquired nil shares during the year, disposed of nil shares during the year and held 1,412,006 shares at 30 June 2011.

P Howard held nil shares at 1 July 2010, acquired nil shares during the year, disposed of nil shares during the year and held nil shares at 30 June 2011.

M Halstead (retired on 31 March 2011) held 414,607 shares at 1 July 2010, acquired nil shares and disposed of nil shares until his date of retirement.

20. RELATED PARTY INFORMATION

Key Management Personnel

Disclosures relating to key management personnel are set out in Note 19.

Related Parties

Disclosures relating to fees paid and payable to the related party Platinum Asset Management are set out in Note 15. There were no other payments to related parties other than those disclosed in the accounts.

21. 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 are 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 30 to 72 are in accordance with the *Corporations Act 2001* including:

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

  (ii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

  (iii) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

(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 that are set out in the Directors' Report on pages 15 to 18 comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

BRUCE PHILLIPS
CHAIRMAN

KERR NEILSON
DIRECTOR

Sydney, 5 August 2011

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

Report on the financial report

We have audited the accompanying financial report of Platinum Capital Limited (the Company), which comprises the Balance Sheet as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows 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 the financial statements comply 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

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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.

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 2011 and of its 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 Company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED CONTINUED

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report on pages 15 to 18 for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

PRICEWATERHOUSECOOPERS

AJ WILSON
PARTNER

Sydney, 5 August 2011

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EVOLUTION BY DESIGN

Design and production by: 3C Creative Agency, ***3c.com.au***
Illustrations by: Juan Travieso, ***juantravieso.com***

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PREFACE

Evolution by Design encompasses the theme behind the 2011 editorial section of the Annual Report.

The first two articles from *The Economist* explore a new manufacturing technology – three dimensional printing. 'Additive manufacturing' as it is also known allows for the creation of single items on the same cost scale as it would to produce thousands. The consequences of this are far reaching and could have a profound impact on industry not seen since the industrial revolution; the implication on manufacturing now depending less on economies of scale and more on innovation and imagination.

Most tantalising of all is that the finished product can be made of metals, thereby expanding the number of applications many fold. It is also interesting that an international giant like Hewlett Packard has entered a global distribution agreement with one of the leading manufacturers. Unfortunately for those readers who are on the hunt for investible ideas, the number of listed 3D printing companies is small. There may be peripheral plays where one can find sintering companies or those involved with the software development, but one way or another, the industry is already significantly affecting concepts of manufacture and design.

The third article, provided for the second year by Dylan Grice from Société Générale, is titled 'Cheap stocks for an expensive world'.

Written in January this year, the essence of the article entreats investors to "…understand what things are worth to you, evaluate that valuation against prices, and only buy assets when they reach a suitably attractive discount." In the long run, the significance of value will win out.

It is really a lesson in patience and discipline. With all the daily excitement of markets, it is seductive to believe there is no reward for biding one's time but as Dylan illustrates, with a relatively crude portfolio selection method, the tortoise does outdo the hare by quite a margin.

In many ways, we find this article complementary to the commentary within the 30 June 2011 Investment Manager's Report in which we note that despite the turmoil over a century (1900-2008) which witnessed the suspension of market price-setting mechanisms, world and regional wars, the Great Depression and so on, the long-term return from equities still provides the most interesting return among asset classes.

We hope these articles provide you with some inspiration in difficult markets and an awareness that there are always opportunities. Further, that these can be magnified when addressed with a 'system' and patience.

KERR NEILSON
Managing Director, August 2011

N

PRINT ME A STRADIVARIUS

How a new manufacturing technology will change the world.

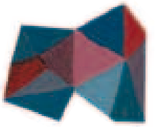
EW

THE industrial revolution of the late 18th century made possible the mass production of goods, thereby creating economies of scale which changed the economy – and society – in ways that nobody could have imagined at the time. Now a new manufacturing technology has emerged which does the opposite. Three-dimensional printing makes it as cheap to create single items as it is to produce thousands and thus undermines economies of scale. It may have as profound an impact on the world as the coming of the factory did.

It works like this. First you call up a blueprint on your computer screen and tinker with its shape and colour where necessary. Then you press print. A machine nearby whirrs into life and builds up the object gradually, either by depositing material from a nozzle, or by selectively solidifying a thin layer of plastic or metal dust using tiny drops of glue or a tightly focused beam.

Products are thus built up by progressively adding material, one layer at a time: hence the technology's other name, additive manufacturing. Eventually the object in question – a spare part for your car, a lampshade, a violin – pops out. The beauty of the technology is that it does not need to happen in a factory. Small items can be made by a machine like a desktop printer, in the corner of an office, a shop or even a house; big items – bicycle frames, panels for cars, aircraft parts – need a larger machine, and a bit more space.

At the moment the process is possible only with certain materials (plastics, resins and metals) and with a precision of around a tenth of a millimetre. As with computing in the late 1970s, it is currently the preserve of hobbyists and workers in a few academic and industrial niches. But like computing before it, 3D printing is spreading fast as the technology improves and costs fall. A basic 3D printer, also known as a fabricator or 'fabber', now costs less than a laser printer did in 1985.



JUST PRESS PRINT

The additive approach to manufacturing has several big advantages over the conventional one. It cuts costs by getting rid of production lines. It reduces waste enormously, requiring as little as one-tenth of the amount of material. It allows the creation of parts in shapes that conventional techniques cannot achieve, resulting in new, much more efficient designs in aircraft wings or heat exchangers, for example. It enables the production of a single item quickly and cheaply – and then another one after the design has been refined.

For many years 3D printers were used in this way for prototyping, mainly in the aerospace, medical and automotive industries. Once a design was finalised, a production line would be set up and parts would be manufactured and assembled using conventional methods. But 3D printing has now improved to the point that it is starting to be used to produce the finished items themselves. It is already competitive with plastic injection-moulding for runs of around 1,000 items, and this figure will rise as the technology matures. And because each item is created individually, rather than from a single mould, each can be made slightly differently at almost no extra cost. Mass production could, in short, give way to mass customisation for all kinds of products, from shoes to spectacles to kitchenware.

By reducing the barriers to entry for manufacturing, 3D printing should also promote innovation. If you can design a shape on a computer, you can turn it into an object. You can print a dozen, see if there is a market for them, and print 50 more if there is, modifying the design using feedback from early users.

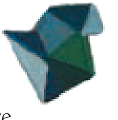
This will be a boon to inventors and start-ups, because trying out new products will become less risky and expensive. And just as open-source programmers collaborate by sharing software code, engineers are already starting to collaborate on open-source designs for objects and hardware.

THE JOBLESS TECHNOLOGY

A technological change so profound will reset the economics of manufacturing. Some believe it will decentralise the business completely, reversing the urbanisation that accompanies industrialisation. There will be no need for factories, goes the logic, when every village has a fabricator that can produce items when needed. Up to a point, perhaps. But the economic and social benefits of cities go far beyond their ability to attract workers to man assembly lines.

Others maintain that, by reducing the need for factory workers, 3D printing will undermine the advantage of low-cost, low-wage countries and thus repatriate manufacturing capacity to the rich world. It might; but Asian manufacturers are just as well placed as anyone else to adopt the technology. And even if 3D printing does bring manufacturing back to developed countries, it may not create many jobs, since it is less labour-intensive than standard manufacturing.

The technology will have implications not just for the distribution of capital and jobs, but also for intellectual-property (IP) rules. When objects can be described in a digital file, they become much easier to copy and distribute – and, of course, to pirate. Just ask the music industry. When the blueprints for a new toy, or a designer shoe, escape onto the internet, the chances that the owner of the IP will lose out are greater.



There are sure to be calls for restrictions on the use of 3D printers, and lawsuits about how existing IP laws should be applied. As with open-source software, new non-commercial models will emerge. It is unclear whether 3D printing requires existing rules to be tightened (which could hamper innovation) or loosened (which could encourage piracy). The lawyers are, no doubt, rubbing their hands.

Just as nobody could have predicted the impact of the steam engine in 1750 – or the printing press in 1450, or the transistor in 1950 – it is impossible to foresee the long-term impact of 3D printing. But the technology is coming, and it is likely to disrupt every field it touches. Companies, regulators and entrepreneurs should start thinking about it now. One thing, at least, seems clear: although 3D printing will create winners and losers in the short term, in the long run it will expand the realm of industry – and imagination. ●

3D

THE PRINTED WORLD

Three-dimensional printing from digital designs will transform manufacturing and allow more people to start making things.

F**ILTON**, just outside Bristol, is where Britain's fleet of Concorde supersonic airliners was built. In a building near a wind tunnel on the same sprawling site, something even more remarkable is being created. Little by little a machine is 'printing' a complex titanium landing-gear bracket, about the size of a shoe, which normally would have to be laboriously hewn from a solid block of metal. Brackets are only the beginning. The researchers at Filton have a much bigger ambition: to print the entire wing of an airliner.

Far-fetched as this may seem, many other people are using three-dimensional printing technology to create similarly remarkable things. These include medical implants, jewellery, football boots designed for individual feet, lampshades, racing-car parts, solid-state batteries and customised mobile phones. Some are even making mechanical devices. At the Massachusetts Institute of Technology (MIT), Peter Schmitt, a PhD student, has been printing something that resembles the workings of a grandfather clock. It took him a few attempts to get right, but eventually he removed the plastic clock from a 3D printer, hung it on the wall and pulled down the counterweight. It started ticking.

Engineers and designers have been using 3D printers for more than a decade, but mostly to make prototypes quickly and cheaply before they embark on the expensive business of tooling up a factory to produce the real thing.

As 3D printers have become more capable and able to work with a broader range of materials, including production-grade plastics and metals, the machines are increasingly being used to make final products too. More than 20% of the output of 3D printers is now final products rather than prototypes, according to Terry Wohlers, who runs a research firm specialising in the field. He predicts that this will rise to 50% by 2020.

Using 3D printers as production tools has become known in industry as 'additive' manufacturing (as opposed to the old, 'subtractive' business of cutting, drilling and bashing metal). The additive process requires less raw material and, because software drives 3D printers, each item can be made differently without costly retooling. The printers can also produce ready-made objects that require less assembly and things that traditional methods would struggle with.

CLICK TO MANUFACTURE

The printing of parts and products has the potential to transform manufacturing because it lowers the costs and risks. No longer does a producer have to make thousands, or hundreds of thousands, of items to recover his fixed costs. In a world where economies of scale do not matter any more, mass-manufacturing identical items may not be necessary or appropriate, especially as 3D printing allows for a great deal of customisation. Indeed, in the future some see consumers downloading products as they do digital music and printing them out at home, or at a local 3D production centre, having tweaked the designs to their own tastes. That is probably a faraway dream. Nevertheless, a new industrial revolution may be on the way.

Printing in 3D may seem bizarre. In fact it is similar to clicking on the print button on a computer screen and sending a digital file, say a letter, to an inkjet printer. The difference is that the 'ink' in a 3D printer is a material which is deposited in successive, thin layers until a solid object emerges.

The layers are defined by software that takes a series of digital slices through a computer-aided design. Descriptions of the slices are then sent to the 3D printer to construct the respective layers. They are then put together in a number of ways. Powder can be spread onto a tray and then solidified in the required pattern with a squirt of a liquid binder or by sintering it with a laser or an electron beam. Some machines deposit filaments of molten plastic. However it is achieved, after each layer is complete the build tray is lowered by a fraction of a millimetre and the next layer is added.

The researchers at Filton began using 3D printers to produce prototype parts for wind-tunnel testing. The group is part of EADS Innovation Works, the research arm of EADS, a European defence and aerospace group best known for building Airbuses. Prototype parts tend to be very expensive to make as one-offs by conventional means. Because their 3D printers could do the job more efficiently, the researchers' thoughts turned to manufacturing components directly.

Aircraft-makers have already replaced a lot of the metal in the structure of planes with lightweight carbon-fibre composites. But even a small airliner still contains several tonnes of costly aerospace-grade titanium. These parts have usually been machined from solid billets, which can result in 90% of the material being cut away. This swarf is no longer of any use for making aircraft.

To make the same part with additive manufacturing, EADS starts with a titanium powder. The firm's 3D printers spread a layer about 20-30 microns (0.02-0.03mm) thick onto a tray where it is fused by lasers or an electron beam. Any surplus powder can be reused. Some objects may need a little machining to finish, but they still require only 10% of the raw material that would otherwise be needed. Moreover, the process uses less energy than a conventional factory. It is sometimes faster, too.

There are other important benefits. Most metal and plastic parts are designed to be manufactured, which means they can be clunky and contain material surplus to the part's function but necessary for making it. This is not true of 3D printing. "You only put material where you need to have material," says Andy Hawkins, lead engineer on the EADS project. The parts his team is making are more svelte, even elegant. This is because without manufacturing constraints they can be better optimised for their purpose. Compared with a machined part, the printed one is some 60% lighter but still as sturdy.

FORM FOLLOWS FUNCTION

Lightness is critical in making aircraft. A reduction of 1kg in the weight of an airliner will save around $3,000-worth of fuel a year and by the same token cut carbon-dioxide emissions. Additive manufacturing could thus help build greener aircraft – especially if all the 1,000 or so titanium parts in an airliner can be printed. Although the size of printable parts is limited for now by the size of 3D printers, the EADS group believes that bigger systems are possible, including one that could fit on the 35-metre-long gantry used to build composite airliner wings. This would allow titanium components to be printed directly onto the structure of the wing.

Many believe that the enhanced performance of additively manufactured items will be the most important factor in driving the technology forward.

It certainly is for MIT's Mr Schmitt, whose interest lies in 'original machines'. These are devices not constructed from a collection of prefabricated parts, but created in a form that flows from the intention of the design. If that sounds a bit arty, it is: Mr Schmitt is a former art student from Germany who used to cadge time on factory lathes and milling machines to make mechanised sculptures. He is now working on novel servo mechanisms, the basic building blocks for robots. Custom-made servos cost many times the price of off-the-shelf ones. Mr Schmitt says it should be possible for a robot builder to specify what a servo needs to do, rather than how it needs to be made, and send that information to a 3D printer, and for the machine's software to know how to produce it at a low cost. "This makes manufacturing more accessible," says Mr Schmitt.

The idea of the 3D printer determining the form of the items it produces intrigues Neri Oxman, an architect and designer who heads a research group examining new ways to make things at MIT's Media Lab. She is building a printer to explore how new designs could be produced. Dr Oxman believes the design and construction of objects could be transformed using principles inspired by nature, resulting in shapes that are impossible to build without additive manufacturing. She has made items from sculpture to body armour and is even looking at buildings, erected with computer-guided nozzles that deposit successive layers of concrete.

Some 3D systems allow the properties and internal structure of the material being printed to be varied. This year, for instance, Within Technologies, a London company, expects to begin offering titanium medical implants with features that resemble bone. The company's femur implant is dense where stiffness and strength is required, but it also has strong lattice structures which would encourage the growth of bone onto the implant. Such implants are more likely to stay put than conventional ones.

Working at such a fine level of internal detail allows the stiffness and flexibility of an object to be determined at any point, says Siavash Mahdavi, the chief executive of Within Technologies. Dr Mahdavi is working on other lattice structures, including aerodynamic body parts for racing cars and special insoles for a firm that hopes to make the world's most comfortable stiletto-heeled shoes.

Digital Forming, a related company (where Dr Mahdavi is chief technology officer), uses 3D design software to help consumers customise mass-produced products. For example, it is offering a service to mobile-phone companies in which subscribers can go online to change the shape, colour and other features of the case of their new phone.

The software keeps the user within the bounds of the achievable. Once the design is submitted the casing is printed. Lisa Harouni, the company's managing director, says the process could be applied to almost any consumer product, from jewellery to furniture. "I don't have any doubt that this technology will change the way we manufacture things," she says.

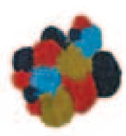
Other services allow individuals to upload their own designs and have them printed. Shapeways, a New York-based firm spun out of Philips, a Dutch electronics company, last year, offers personalised 3D production, or 'mass customisation', as Peter Weijmarshausen, its chief executive, describes it. Shapeways prints more than 10,000 unique products every month from materials that range from stainless steel to glass, plastics and sandstone. Customers include individuals and shopkeepers, many ordering jewellery, gifts and gadgets to sell in their stores.

EOS, a German supplier of laser-sintering 3D printers, says they are already being used to make plastic and metal production parts by carmakers, aerospace firms and consumer-products companies. And by dentists: up to 450 dental crowns, each tailored for an individual patient, can be manufactured in one go in a day by a single machine, says EOS. Some craft producers of crowns would do well to manage a dozen a day. As an engineering exercise, EOS also printed the parts for a violin using a high-performance industrial polymer, had it assembled by a professional violin-maker and played by a concert violinist.

Both EOS and Stratasys, a company based in Minneapolis which makes 3D printers that employ plastic-deposition technology, use their own machines to print parts that are, in turn, used to build more printers. Stratasys is even trying to print a car, or at least the body of one, for Kor Ecologic, a company in Winnipeg, whose boss, Jim Kor, is developing an electric-hybrid vehicle called Urbee.

Making low-volume, high-value and customised components is all very well, but could additive manufacturing really compete with mass-production techniques that have been honed for over a century? Established techniques are unlikely to be swept away, but it is already clear that the factories of the future will have 3D printers working alongside milling machines, presses, foundries and plastic injection-moulding equipment, and taking on an increasing amount of the work done by those machines.

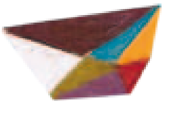
Morris Technologies, based in Cincinnati, was one of the first companies to invest heavily in additive manufacturing for the engineering and production services it offers to companies. Its first intention was to make prototypes quickly, but by 2007 the company says it realised 'a new industry was being born' and so it set up another firm, Rapid Quality Manufacturing, to concentrate on the additive manufacturing of higher volumes of production parts. It says many small and medium-sized components can be turned from computer designs into production-quality metal parts in hours or days, against days or weeks using traditional processes. And the printers can build unattended, 24 hours a day.



Neil Hopkinson has no doubts that 3D printing will compete with mass manufacturing in many areas. His team at Loughborough University has invented a high-speed sintering system. It uses inkjet print-heads to deposit infra-red-absorbing ink on layers of polymer powder which are fused into solid shapes with infra-red heating. Among other projects, the group is examining the potential for making plastic buckles for Burton Snowboards, a leading American producer of winter-sports equipment. Such items are typically produced by plastic injection-moulding. Dr Hopkinson says his process can make them for ten pence (16 cents) each, which is highly competitive with injection-moulding. Moreover, the designs could easily be changed without Burton incurring high retooling costs.

Predicting how quickly additive manufacturing will be taken up by industry is difficult, adds Dr Hopkinson. That is not necessarily because of the conservative nature of manufacturers, but rather because some processes have already moved surprisingly fast. Only a few years ago making decorative lampshades with 3D printers seemed to be a highly unlikely business, but it has become an industry with many competing firms and sales volumes in the thousands.

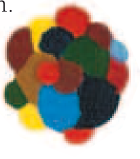
Dr Hopkinson thinks Loughborough's process is already competitive with injection-moulding at production runs of around 1,000 items. With further development he expects that within five years it would be competitive in runs of tens if not hundreds of thousands. Once 3D printing machines are able to crank out products in such numbers, then more manufacturers will look to adopt the technology.



Will Sillar of Legerwood, a British firm of consultants, expects to see the emergence of what he calls the 'digital production plant': firms will no longer need so much capital tied up in tooling costs, work-in-progress and raw materials, he says. Moreover, the time to take a digital design from concept to production will drop, he believes, by as much as 50-80%. The ability to overcome production constraints and make new things will combine with improvements to the technology and greater mechanisation to make 3D printing more mainstream. "The market will come to the technology," Mr Sillar says.

Some in the industry believe that the effect of 3D printing on manufacturing will be analogous to that of the inkjet printer on document printing.

The written word became the printed word with the invention of movable-type printing by Johannes Gutenberg in the 15th century. Printing presses became like mass-production machines, highly efficient at printing lots of copies of the same thing but not individual documents. The inkjet printer made that a lot easier, cheaper and more personal. Inkjet devices now perform a multitude of printing roles, from books on demand to labels and photographs, even though traditional presses still roll for large runs of books, newspapers and so on.



A CUSTOMISED FUTURE

How would this translate to manufacturing? Most obviously, it changes the economics of making customised components. If a company needs a specialised part, it may find it cheaper and quicker to have the part printed locally or even to print its own than to order one from a supplier a long way away. This is more likely when rapid design changes are needed.

Printing in 3D is not the preserve of the West: Chinese companies are adopting the technology too. Yet you might infer that some manufacturing will return to the West from cheap centres of production in China and elsewhere. This possibility was on the agenda of a conference organised by DHL last year. The threat to the logistics firm's business is clear: why would a company airfreight an urgently needed spare part from abroad when it could print one where it is required?

Perhaps the most exciting aspect of additive manufacturing is that it lowers the cost of entry into the business of making things. Instead of finding the money to set up a factory or asking a mass-producer at home (or in another country) to make something for you, 3D printers will offer a cheaper, less risky route to the market. An entrepreneur could run off one or two samples with a 3D printer to see if his idea works. He could make a few more to see if they sell, and take in design changes that buyers ask for. If things go really well, he could scale up – with conventional mass production or an enormous 3D print run.

This suggests that success in manufacturing will depend less on scale and more on the quality of ideas. Brilliance alone, though, will not be enough. Good ideas can be copied even more rapidly with 3D printing, so battles over intellectual property may become even more intense. It will be easier for imitators as well as innovators to get goods to market fast. Competitive advantages may thus be shorter-lived than ever before. As with past industrial revolutions, the greatest beneficiaries may not be companies but their customers. But whoever gains most, revolution may not be too strong a word. ●

CHEAP STOCKS FOR AN EXPENSIVE WORLD

By: Dylan Grice
from Société Générale Cross Asset Research Global Strategy Document, 31 January 2011

People say '*the current juncture is just so murky at the moment*'. But when isn't it? Since all we reliably know is that some things will trade at the wrong price some of the time, understanding what things are worth and waiting for prices to deviate significantly might be a more constructive ideal to aspire to. Today, I think equity markets are generally on the expensive side but opportunities haven't completely dried up. There are *some* stocks with robust balance sheets trading at significant discounts to intrinsic value. Just not that many.

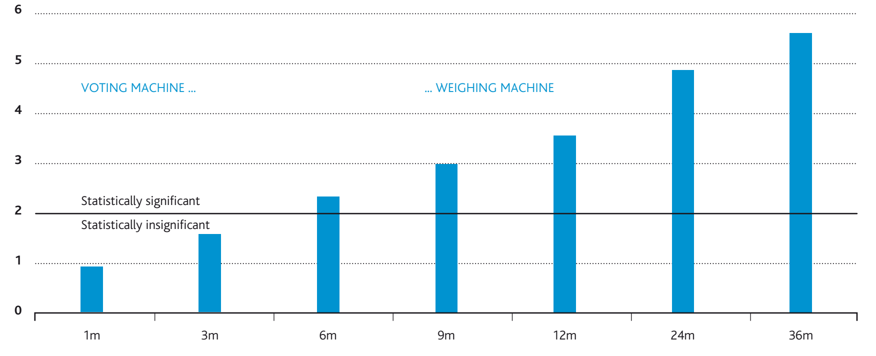
DELU-
SIONS

- So, I've been rereading past Berkshire Hathaway shareholder letters these past few weeks (we lead pretty exciting lives here in the SG strategy team). In 2009, referring to his purchase of Allied Irish and Bank of Ireland, Buffett wrote "*I made some other already recognizable errors as well. They were smaller, but unfortunately not that small. During 2008, I spent $244 million for shares of two Irish banks that appeared cheap to me. At year-end we wrote these holdings down to market: $27 million, for an 89% loss. Since then the two stocks have declined even further. The tennis crowd would call my mistakes 'unforced errors'.*" Warren E. Buffett predicted neither the credit crisis nor its magnitude.

- What I find interesting is that it didn't matter, in the sense that at $217m, the loss Berkshire wore on the Irish banks at the time was less than half the annual dividend earned on the 10% preference shares he was able to buy from Goldman Sachs at the height of the crisis. And the reason he managed to extract such favourable terms from Goldman was that he was the only guy around with ample liquidity. And the reason he had ample liquidity was because, the above errors notwithstanding, there weren't enough obvious bargains around in the years preceding the crisis. While he didn't predict *the* crisis, his value-discipline nevertheless prepared him for *a crisis*.

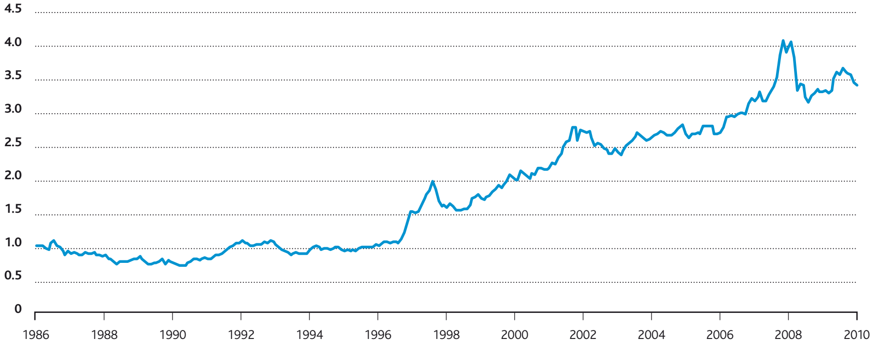
- We don't need to be able to predict the future. Doing our homework, understanding what stuff is worth and transacting when prices depart significantly thereof isn't as easy as it sounds. But, as Ben Graham said, if in the short term the market is a voting machine, in the long run it's a weighing machine. The following chart shows that value is indeed statistically *insignificant* in the short run. But it wins outs in the end.

The statistical significance of 'value' over different time horizons (t-stat shown on l/h axis)
Source: *Factset, SG Cross Asset Research*



Here's an interesting chart. It shows the historic outperformance of 'high quality' stocks versus 'low quality' using the FTSE World non-financial stocks, and using the Piotroski score to classify value[1]. The historical annualized performance has been around 520bp.

Last free lunch in finance? High vs low quality stocks cumulative outperf. (annual return 5.2%)
Source: *SG Cross Asset Research*



1 The Piotroski score is based on a nine-criterion ranking system, calculating various ratios from historical accounts. It ranges from 0 (lowest score) to 9 (highest score) with higher scores suggesting sounder financial health. See *'Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers'*, by Joseph Piotroski, Journal of Accounting Research, 2002.

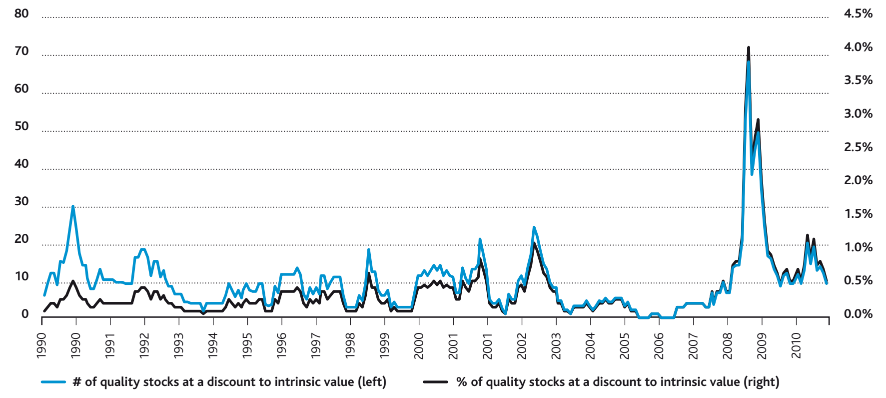
In one sense, this shouldn't be surprising. One of the (many) well-known empirical flaws in the EMH is that low beta stocks that are 'low risk' and which therefore should have a lower return actually don't. Indeed, GMO's Jeremy Grantham has referred to this opportunity of being able to make higher returns by taking on less risk as the last free lunch in finance.

But, the interesting thing about this chart, to me anyway, is that the stock baskets have been selected *entirely* on their Piotroski score. In other words, it shows the returns a hypothetical investor would have made had he bought the basket of high quality stocks and sold short the basket of low quality companies *regardless of their valuation.*

Suppose we use the Piotroski score to isolate high quality companies. Then subject those high quality companies to the usual value discipline by selecting *only* those which trade at a discount to estimated intrinsic value (I use a 33% discount). Such stocks have historically returned around 1.9% per month, which annualises at around 25% per year, a tidy return in anyone's book. The problem is that hardly any stocks pass such a stringent test. Indeed, one might call this *absurdly* deep value. 'Hardly any' doesn't mean 'none' but the following chart shows that you're doing well if half of one percent of the universe passes the test[2].

2 Of course, this apparent paucity of historic opportunities is partly a function of the methodology I've used to estimate intrinsic value, which is quite a stringent version of Steve Penman's Residual Income Model. And one of the most common requests I've had from clients is for a detailed explanation of how I estimate 'intrinsic values.' I will provide this next week.

Closer to famine than feast: incidence of 'high quality' at a discount to intrinsic value
Source: *Factset, SG Cross Asset Research*

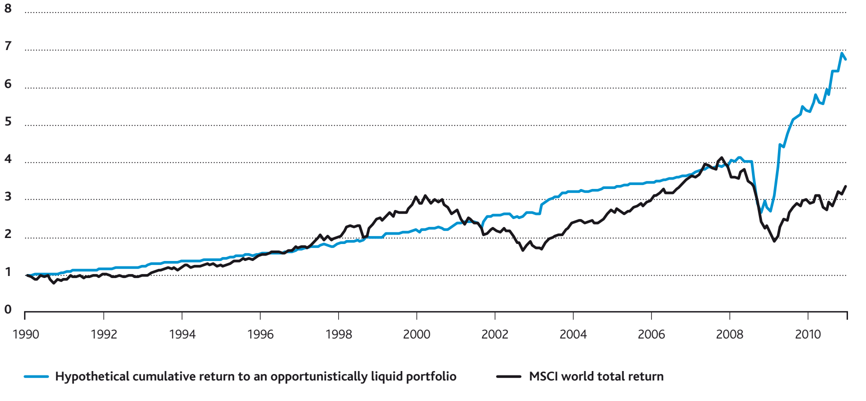


But, as the chart shows, there are times, albeit infrequent, when Mr Market offers up a veritable feast of companies passing such stringent criteria. Although today isn't one of them, neither is it the famine seen in 2005 and 2006. We don't know when these feasts are going to happen. We just know that they will, sometime.

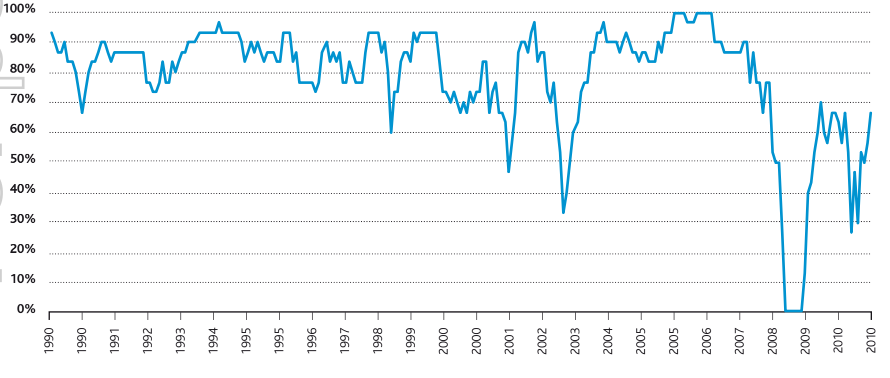
So the 'right' thing to do is to hold on to cash and wait until those opportunities arise. Suppose as your core portfolio – absent any insurance options – you wanted to hold a maximum of 30 stocks.

Each month, you allocate one-thirtieth of your capital to every stock you can find which passes your absurdly deep value screen. If on those rare occasions you find more than 30 stocks then I've assumed you just own them all equally weighted. But if you can't find 30 stocks, I assume the already allocated capital simply sits in cash. That way, you're sitting on cash opportunistically – so if you can find only 15 stocks, you're 50% cash. If you can't find *any* such stocks, you're 100% in cash. The following charts show the hypothetical return profile to this 'opportunistically liquid' portfolio, followed by the hypothetical cash allocation. Currently, this strategy would be 70% in cash at the moment, reflecting the narrowness of the current opportunity set.

Patience, liquidity ... and profitability? (cumulative returns, 1990 = 1)
Source: *SG Cross Asset Research, Factset*



Cash weighting in the opportunistically liquid portfolio
Source: *SG Cross Asset Research, Factset*



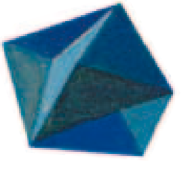
And here are the stocks which you'd currently be holding. Bear in mind that this exercise is illustrative and that these stocks are only the output from a quant screen I've built – I don't know much about most of these stocks, and am certainly not recommending you go out and buy them. (As I said, I'll detail the methodology, along with its pros and cons next week.)

High Quality trading at discount to estimated intrinsic value (IVP ratio >1.33)
Source: *SG Cross Asset Research*

Company Name	Country	Market Cap ($bn)	Sector	Bk Val/PS (lcl ccy)	10y ave RoE	Estimated Intrinsic Value	Monthly Closing Price	IVP	Piotroski Score
Telkom S.A.	South Africa	2,612	Integrated Telecommunication Services	58.3	26.0	102	35.1	2.9	8
Persimmon	UK	2,019	Homebuilding	5.4	19.8	9.2	3	2.7	7
BlueScope Steel	Australia	3,741	Steel	3.1	17.2	4.3	2	2.2	8
CME Group	United States	20,766	Specialised Finance	290.2	27.0	607	288	2.1	7
Pacific Corp.	South Korea	1,039	Personal Products	221,551	17.0	381,329	189,000	2.0	7
SK Networks	South Korea	2,758	Trading Companies and Distributors	12,257	22.7	21,285	10,950	1.9	8
TPV Technology	Hong Kong	1,467	Computer Storage and Peripherals	5.3	24.9	8.4	5	1.7	7
Funai Electric Co.	Japan	1,147	Consumer Electronics	4,167	10.6	4,717	2,844	1.7	7
Charter International	UK	2,100	Industrial Machinery	3.3	39.0	10.1	7	1.5	7
Akzo Nobel N.V.	Netherlands	14,540	Diversified Chemicals	33.5	30.7	60	41	1.4	8
Western Digital Corp	United States	7,241	Computer Storage and Peripherals	17.0	39.3	46	34	1.4	7
Ricoh Co.	Japan	10,380	Office Electronics	1,341	10.2	1,577	1,181	1.3	8

So right now, the 'right' thing to do is to be liquid and hold plenty of cash. The problem is that knowing what the 'right' thing to do is, even when it's really simple, doesn't make doing it any easier. People write books and build careers on helping other people lose weight, even though losing weight is one of the simplest things in the world (exercise more, eat less). The same is true for stopping smoking. There are books and courses to help smokers kick the habit because so many people find it so difficult to do (unfortunately I know this only too well – why are Marlboro lights such a great idea the moment you get your first taste of Guinness?!) Yet there's nothing intrinsically complicated in stopping. Stop picking up cigarettes, putting them in your mouth, and smoking them.

Getting from the sequence of short-runs to the long run is the difficult bit. Sometimes the simplest things in theory are the hardest things in practice, and knowing the right thing to do is only the first step. So, understand what things are worth to you, evaluate that valuation against prices, and only buy assets when they reach a suitably attractive discount. If the risk to doing the right thing is of losing business because you're not doing what everyone else is doing, so be it – simple!



…but not easy. So what can we do? Dieters have support groups to help them resist the temptation to eat to excess. Smokers can buy nicotine patches to help resist the temptation to smoke. What do investors have to prevent them chasing higher prices and the seduction of the associated narrative? Not much, other than, perhaps, the wisdom of others. So with this in mind, I thought I'd leave you with this excerpt from the 2005 Berkshire letter, where Mr. Buffett explains the business philosophy behind the success of Berkshire's National Indemnity business (I've taken the liberty of charting the tabulated data from the original report).

2005 BERKSHIRE LETTER – *extract*

"Since Berkshire purchased National Indemnity ('NICO') in 1967, property-casualty insurance has been our core business and the propellant of our growth. Insurance has provided a fountain of funds with which we've acquired the securities and businesses that now give us an ever-widening variety of earnings streams. So in this section, I will be spending a little time telling you how we got where we are.

The source of our insurance funds is 'float,' which is money that doesn't belong to us but that we temporarily hold. Most of our float arises because (1) premiums are paid upfront though the service we provide – insurance protection – is delivered over a period that usually covers a year and; (2) loss events that occur today do not always result in our immediately paying claims, because it sometimes takes many years for losses to be reported (asbestos losses would be an example), negotiated and settled. The $20 million of float that came with our 1967 purchase has now increased – both by way of internal growth and acquisitions – to $46.1 billion.

Float is wonderful – if it doesn't come at a high price. Its cost is determined by underwriting results, meaning how the expenses and losses we will ultimately pay compare with the premiums we have received. When an underwriting profit is achieved – as has been the case at Berkshire in about half of the 38 years we have been in the insurance business – float is better than free. In such years, we are actually paid for holding other people's money. For most insurers, however, life has been far more difficult: In aggregate, the property-casualty industry almost invariably operates at an underwriting loss. When that loss is large, float becomes expensive, sometimes devastatingly so.

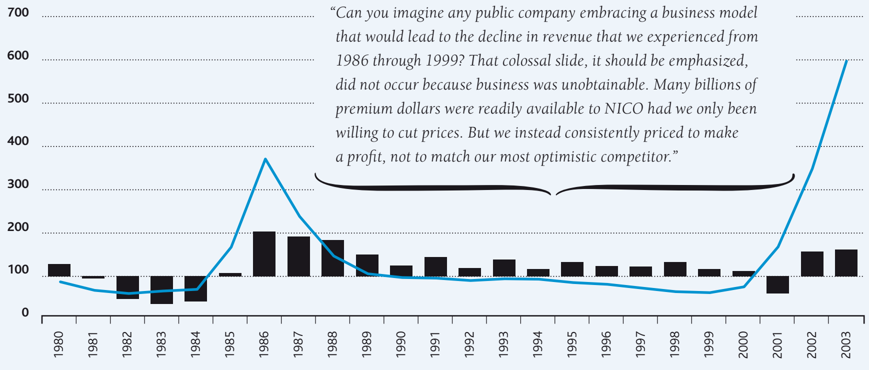
Insurers have generally earned poor returns for a simple reason: They sell a commodity-like product. Policy forms are standard, and the product is available from many suppliers, some of whom are mutual companies ('owned' by policyholders rather than stockholders) with profit goals that are limited. Moreover, most insureds don't care from whom they buy. Customers by the millions say 'I need some Gillette blades' or 'I'll have a Coke' but we wait in vain for 'I'd like a National Indemnity policy, please.' Consequently, price competition in insurance is usually fierce. Think airline seats.

So, you may ask, how do Berkshire's insurance operations overcome the dismal economics of the industry and achieve some measure of enduring competitive advantage? We've attacked that problem in several ways. Let's look first at NICO's strategy.

When we purchased the company – a specialist in commercial auto and general liability insurance – it did not appear to have any attributes that would overcome the industry's chronic troubles. It was not well-known, had no informational advantage (the company has never had an actuary), was not a low-cost operator, and sold through general agents, a method many people thought outdated. Nevertheless, for almost all of the past 38 years, NICO has been a star performer. Indeed, had we not made this acquisition, Berkshire would be lucky to be worth half of what it is today.

What we've had going for us is a managerial mindset that most insurers find impossible to replicate. Take a look at the facing page [DG: see chart]. Can you imagine any public company embracing a business model that would lead to the decline in revenue that we experienced from 1986 through 1999? That colossal slide, it should be emphasized, did not occur because business was unobtainable. Many billions of premium dollars were readily available to NICO had we only been willing to cut prices. But we instead consistently priced to make a profit, not to match our most optimistic competitor. We never left customers – but they left us.

Portrait of a disciplined underwriter
Source: *Berkshire Hathaway 2005 shareholders' letter*



Most American businesses harbor an 'institutional imperative' that rejects extended decreases in volume. What CEO wants to report to his shareholders that not only did business contract last year but that it will continue to drop? In insurance, the urge to keep writing business is also intensified because the consequences of foolishly-priced policies may not become apparent for some time. If an insurer is optimistic in its reserving, reported earnings will be overstated, and years may pass before true loss costs are revealed (a form of self-deception that nearly destroyed GEICO in the early 1970s)."

Dylan Grice *Société Générale Cross Asset Research from Global Strategy Document*, 31 January 2011, *Popular Delusions*.