A ray of hope

THE CASE FOR SOLAR ENERGY

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THE CASE FOR SOLAR ENERGY

The trendy subject of the day is global warming. Some newspapers even run regular columns on sustainability and how we as individuals might reduce our carbon footprint. There is no question that the public generally acknowledges the problem we face if indeed all are to share in the world's finite resources and enjoy the material standard of living most in the west regard as their birthright. This is a subject quite distinct from arguments of global warming and empirical evidence of climate change.

I think that regardless of one's affiliations, and acknowledging that at large we humans are selfish and arguably greedy, most feel the need for conservation so long as the cost is not "too high". Further, that we would be prepared to make changes to our behaviour even if we do have supreme belief that "technology" will save the day.

Over the years we have addressed different aspects of resource exploitation. In 2003 we wrote about the impending price squeeze on oil: *"What price for the last drops?"* and this was followed in 2004 with *"China's water crises could shake world food security"*. This year we are publishing part of an internal note written by Curtis Cifuentes, titled *"The Case for Solar Energy"*. An introduction has been added for completeness but it is otherwise intentionally uncut to reveal the work that goes on behind the scenes by our analysts as they probe to fully understand an industry. (Detailed work on individual stocks has been left out.)

I think you may be surprised at the advances made with harnessing the sun's energy. Curtis covers many aspects of the subject and points to the opportunities created by so-called "thin film" applications which could make solar collectors ubiquitous. He sees solar as being able to meet a far greater proportion of the world's energy needs than many presently believe and importantly, addresses the myth regarding the actual energy usage in the creation of the solar panels themselves.

Australia has been a pioneer in the field of solar energy and the University of NSW has maintained its academic lead even with little support for industrial application within our sunny country. By contrast the Japanese and Germans, with solar insolation at half to two thirds of ours, lead in the industrial exploitation on this energy source primarily thanks to government encouragement and subsidies.

As you read this note you may well be encouraged to do your bit for conservation. We are already seeing major changes to the pricing of domestic electrical supply and in some locations householders are now subject to peak, shoulder and off-peak rates. With the peak rate, from around 2 pm to 8 pm now set at 22 cents in parts of NSW and the prospect of earning this as a feed-in rate, the economics of solar is becoming more compelling. I hope you enjoy the article and perhaps can conjure up ways of playing the theme in the stock market.

Kerr Neilson
MANAGING DIRECTOR

A ray of hope

THE CASE FOR SOLAR ENERGY

Consider the situation if, through public pressure on governments, we are forced to acknowledge the true cost of generating electricity with fossil fuels.

Curtis Cifuentes INVESTMENT ANALYST/PLATINUM ASSET MANAGEMENT

For the first time in the history of the technology, photovoltaic solar electricity is now competitive with grid power in some markets. Despite this, there remains a widely-held perception that it will always be too expensive and will never make up a large portion of our electricity generation. The reality however is that after wind, it is the most technologically viable renewable energy source and has a number of significant advantages:

- It is modular and simple. Solar cells can scale from the tiny (such as in calculators) up to megawatt-scale solar farms. There are no moving parts and they can generate electricity for thirty years with little maintenance.

- Solar cells tap into an almost unlimited, concentrated source of energy; a source of energy that bathes the planet in as much energy as humans use in a year every forty-five minutes. (And remember that all the energy we use now, be it fossil fuels or even wind generated, indirectly comes from the sun.)

- The output of solar cells over the day fits almost perfectly with peak demand. In fact, it is suggested that solar could grow to be 10 per cent of total electricity generation before any changes to the distribution grid are needed. By generating peak load at or near where it's used it can actually reduce transmission losses and the need for high-capacity transmission spending to support growing regions and cities.

- Solar doesn't compete for other uses of land. Most can be installed on existing dead spaces: building and house rooftops and façade glass.

We could be on the verge of a second silicon revolution (the first being the information and communication revolution set off by the computer chip) and we're only being held back by three things: a credibility gap, possibly due to false starts in the '70s and '80s; the high learning cost of solar; and a society in denial about the true cost of fossil fuels (and governments still willing to subsidise those industries). The first two will be solved as the industry grows and matures and with the emergence of specialists who assist buyers with a seamless solar solution. For the third issue, the true cost of fossil fuel to be acknowledged, it will take political will and commitment greater than the power of lobby groups and our innate ability for self-delusion. However, there is no denying the shift in public opinion as we begin to understand some of the complex elements of the energy-cost equation. Let's just hope that a sense of purpose arrives ahead of schedule as the debate progresses through the standard five stages of denial through to acceptance.

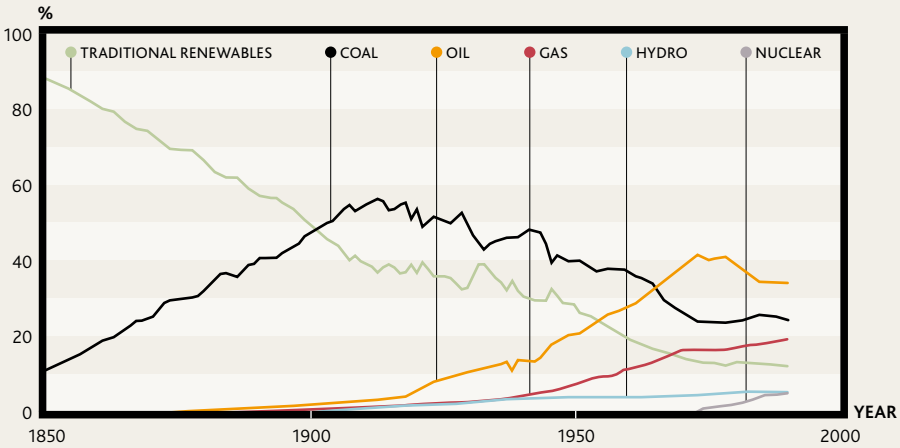
(Very) brief history of energy

The desire to accumulate energy is built into our DNA. The survival of all life is dependent on not only collecting enough for one's own activity, but also avoiding becoming somebody else's source of energy. The rise (and fall) of civilisations is also inextricably linked to the abundance of a supply of energy. For humans, the first big step was the harnessing of fire, which enabled us to control the release of chemical energy stored in wood. Animal domestication and agriculture too are just tools for energy management, which along with fire, supported a huge growth in population.

There are many historical examples of how poor management of the balance of supply of energy can lead to societal collapse – the Sumerian civilisation of Mesopotamia (over irrigation leading to soil salination and systemic agricultural failure), the Roman Empire (deforestation leading to soil degradation and its effect on crop yields) and fifteenth century China (again, war and other natural resource-depleting actions leading to the collapse of farming communities).

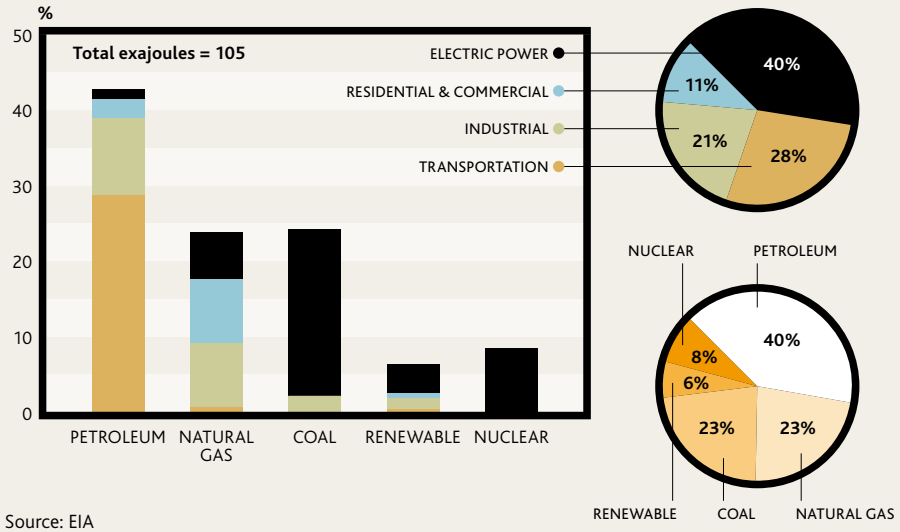
A similar collapse was avoided in Europe thanks to the discovery of coal, which as an even more concentrated source of energy than wood, eventually went on to power the industrial revolution. Electricity or "coal by wire" enabled the benefits of coal to be extended to places that had none. Coal was soon followed by oil, which has certain economic advantages over coal, especially for transportation applications; mainly because being a liquid, it is easily transported. It is argued that the conversion of the British navy fleet from coal to oil gave it superiority to Hitler's coal-fired navy.

FIG 1 **Historical human energy consumption by source**



Source: Solar Revolution

FIG 2 **2005 US primary energy consumption by source and share of total**



Source: EIA

The oil shock of the 1970s set in motion a shift away from oil-powered electricity generation to natural gas, which has proven to be a versatile fossil fuel, and has become an important part of the global energy mix. The innovation here being the freezing of it for transport across oceans.

Today, the electricity grid, oil refining and distribution and natural gas pipelines make up the three major energy supply infrastructures upon which we rely. Total global primary consumption was an estimated 450 exajoules in 2005, of which electricity was 18 per cent of final consumption. This understates the true importance of electricity however, as about 65 per cent of the energy used to generate electricity is lost in generation and transmission, meaning about 35 per cent of primary fuel is actually used to make this electricity.

In 2005 peak electricity generation capacity was around 4,000 GW which produced about 17,000 TWh (= 61 exajoules) of electricity.[1]

Bankrupt energy system

When humans first started burning wood for energy, the low total population meant that the forests could naturally regenerate faster than they were cut down. But when an imbalance occurs, there is the risk of a painful adjustment in population and livelihood until equilibrium is found, as Malthus first described back in 1798. However, this discovery and newer and more concentrated forms of energy, combined with the belief that improved technology and productivity will outweigh population, effectively made his theories appear outdated.

There is no denying however that the current energy system is bankrupt. We are drawing down on Earth's solar energy savings, mostly in the form of fossil fuels deposited over millions of years, faster than new energy is being stored in the system. Globalisation has simply accelerated this phenomenon. We have the power to exhaust energy reserves wherever they may be. Doomsday scenarios are not unknown in history although they have generally been localised in scope.

So with solar power almost competitive with retail grid prices (even more so once you include the hidden costs of fossil fuel and transmission losses), what is holding back mass acceptance? Largely because of the false starts in the 1970s, there's a widely held belief that solar can never be cost competitive; from a prospective buyer's perspective solar is still difficult to understand, install and finance. Finally, maybe we're in denial

1 On average, due to base and peak load demand differences, only half of peak capacity is used.

With global energy demand expected to continue to grow at 2.5–3 per cent annually, the costs of air pollution, global climate change, deforestation, soil loss and desertification will have to be borne at some point.

because of the Herculean task of weaning ourselves off fossils fuels, but not to do so has potentially cataclysmic effects on economies and the environment. For whatever reason, we are not only ignoring the hidden costs of fossil fuels, we also continue to subsidise them!

The hidden costs of generating electricity from fossil fuels

It's very easy to say a coal-fired plant can generate electricity at 4c/kWh (a unit of electricity on your electricity bill) so why would one even consider solar at 15c/kWh? This arithmetic is flawed not only because it doesn't include distribution costs (up to 20 per cent of the energy generated can be lost just getting it to the consumer), but also because we are not including the many hidden costs.

ENVIRONMENTAL CONSEQUENCES

This is far from the place to go into detail on a subject that is controversial, but with global energy demand expected to continue to grow at 2.5-3 per cent annually, the costs of air pollution, global climate change, deforestation, soil loss and desertification will have to be borne at some point, even if they are hard to value.

Thanks to carbon credits, however, we can put a nominal cost on CO_2 emissions. The amount of CO_2 emitted by burning fossil-fuels is obviously dependent on the kind of fuel being burnt, but rough numbers for electricity generated by different sources are in the Table 1, on page xii. Based on current European Climate Exchange Carbon Financial Instrument futures (CFI = 1t CO_2 emission right) price of €25, negating the CO_2 would add as much as 3.5c to the cost/kWh for a coal-fired plant, almost doubling the generation cost.

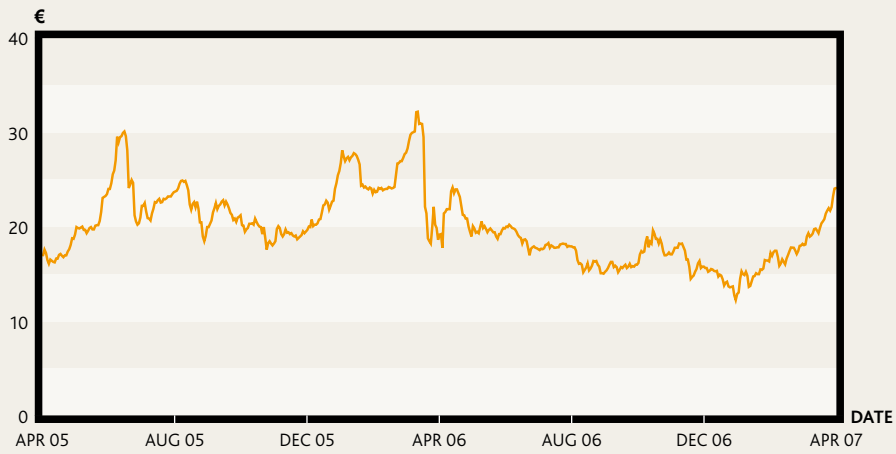
Clean coal technology

This concept is based on the potential additional costs of removing and compressing CO_2 from coal-fired power stations and then storing it somewhere. Extracting the CO_2 is well within today's engineering abilities, although it requires some of the electricity generated by the plant to do so. The real problem is what to do with that compressed CO_2? Current proposals, such as pumping it down old wells presents many issues, not least geological and locational and although there are a handful of projects that have recently commenced, as a long term solution, there are many doubts as to their potential effectiveness and trouble free outcomes.

TAB 1 CO_2 emissions and the cost to neutralise

	CO_2 g/kWh	c/kWh @ €25/t
Coal	900-1400	2.25-3.5
Oil	760	1.9
Natural gas	400-500	1-1.25

FIG 3 European climate exchange CFI futures



Source: Factset

The whole idea seems like the Simpsons' episode *"Trash of the Titans"* where Homer gets himself elected as Sanitation Commissioner and comes up with a plan to put the nation's trash down Springfield's abandoned mine shaft. Predictably, the trash begins to erupt all over town and the problem is solved only by moving the entire town five miles down the road.

To be fair, there are more realistic, proven ways of sequestering carbon, such as planting trees. A Pew Centre study concluded that 500 million tonnes of carbon, one-third of US emissions, could be mitigated for between $30-$90/t (an additional 3c-13c/kWh for a coal-fired plant). The amount of agricultural land required, however, is huge – approximately 100,000 km^2 (the land mass of Iceland) for just 50 million tonnes of carbon – one-tenth of one-third of US emissions.

PRICE VOLATILITY AND SCARCITY, GEOPOLITICAL RISKS

Current electricity prices seem to ignore the likely longer term costs of fossil fuel.

Admittedly, very little electricity today is generated from oil but the only reason for this is that we've been through this before. The oil shock in the 1970s triggered an emphasis on reduction in dependence on oil and a huge shift away from oil-fired power to gas and nuclear. In 1973, oil accounted for 25 per cent of all electricity generated in the US, yet in 2004 that had fallen to less than 7 per cent. Gas, by comparison, had risen from 12 per cent to 20 per cent and nuclear from 3 per cent to 16 per cent.

Similarly, how do we put a price on securing stable supplies of an increasingly scarce resource?

GRID RISKS

The electricity generation technologies that have become dominant are predicated on a centralised generating structure, which makes failures dramatic when they happen. Add to this industry deregulation, which was intended to foster competition and improve services and prices, but has had the consequence of allowing a systemic underspending on infrastructure. The true cost of electricity would be higher if utilities weren't running down their assets.

Renewable energy options

Before looking at solar, consider the following brief summaries of other renewable energy sources available:

HYDROELECTRICITY

While at first glance dams appear a compelling energy resource, the reality is not so clear cut. Dams, of which there are about 45,000 globally, count for about 16 per cent of electricity production and do it quite cheaply – 2-10 cents/kWh. Availability risk is low[2] and they make great sources of peak electricity demand. However the hidden costs of hydro are high. The most obvious is human and animal displacement. It is estimated that dams built between 1950 and 1990 contributed to the displacement of 40-80 million people, often without compensation. Secondly, as tree and plant matter that is flooded decay, CO_2 and methane are released eventually in quantities that some estimate to be close to that emitted had the same amount of electricity been generated from fossil fuels. Environmental issues aside, the number of feasible sites for new dams is also limited and lead times for new capacity are long.

NUCLEAR POWER

Nuclear generated power offers great base load generating capacity (mostly because plants are very difficult to turn on and off). It grew from almost nothing in 1970 to 17 per cent of production by 1988, partly thanks to an effort to wean the West from its dependence on oil. Costs are estimated at 6-7 cents/kWh under optimal conditions, ranging as high as 10-14 cents/kWh. Accidents like Three Mile Island and Chernobyl brought attention to the safety risks and even now, political concerns remain high. Hidden costs for nuclear power include the yet unresolved solution to storage and disposal of radioactive waste, decommissioning costs and the potential cost of a serious accident. Like hydro, lead times are also long.

WIND POWER

The wind industry is a great example of how quickly a technology can grow when it becomes cost competitive. Large wind farms can generate electricity at 3-6 cents/kWh. According to IEA's 2004 numbers, wind accounted for 0.4 per cent of global electricity production. As has been discussed, aesthetic issues have sparked resistance from communities where wind farms have been planned, and moving them offshore entails a different set of problems. Wind is also a fickle energy source, making wind

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2 Although the Snowy Hydro is at 8 per cent of capacity and there's the risk NSW will soon be without an important chunk of peak load power.

power unsuitable for either base or peak load supply but nevertheless it is a growing contributor to renewable energy supply.

BIOMASS

This includes everything from burning wood to the use of heat and catalytic chemistry to produce syngas or fermentation of plant matter for ethanol or use of modified plant oils (biodiesel). Biomass still supplies 9-13 per cent of the globe's energy (not electricity). Notwithstanding technology breakthroughs that, for example, improve the digestion of plant matter, the competition for land for fuel versus food has many contentious facets, including issues of forests clearing, reduced biodiversity, water supplies, fertiliser and pesticide contamination and so on.

It's worth noting that compared to direct photovoltaics, photosynthesis is an inefficient converter of energy. One expert put it to us that the "best" crops, such as certain types of switch grass, are at best one one-hundredth as efficient as today's solar cells in converting light to energy!

GEOTHERMAL/OCEAN/FUSION

While this is potentially promising, either potential sites for generation are limited (geothermal) or the technology is too immature to evaluate.

Solar energy

HISTORY

The first silicon solar cell was discovered accidentally in 1940 by Russel Ohl, a researcher at Bell Labs, when he shone a torch on a piece of silicon that happened to be connected to a voltmeter. This led to the discovery that silicon had different properties depending on the impurities in the silicon (p-type and n-type); an understanding which led to the birth of the microelectronics industry.

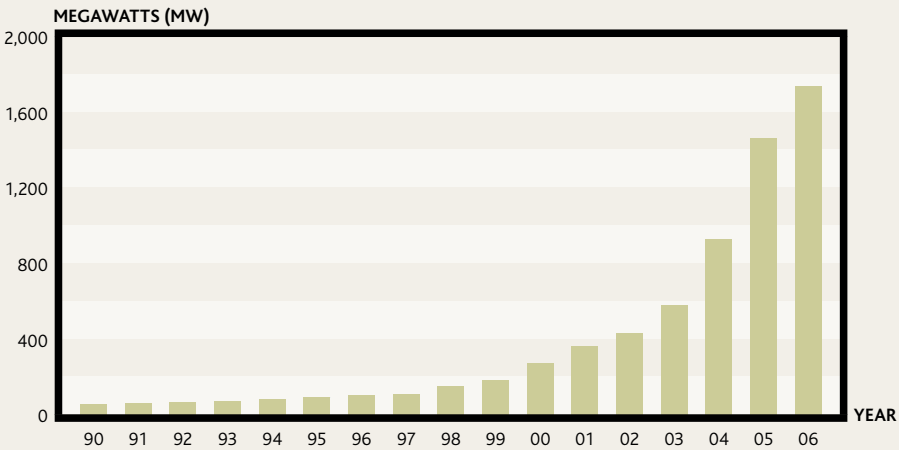
The first efficient photovoltaic (PV) cell was made in 1954, and while it generated a lot of excitement, costs limited PV cells to all but the most specialised applications – the biggest being the budding space industry. The oil embargoes of the early 1970s forced governments to reassess their energy policies and this led to greater funding of research into alternative energy sources. President Carter gave the solar program a further boost (even putting solar panels on the roof of the White House) but most of this work was undone by falling oil prices and the Reagan administration, which reduced funding dramatically, shifting spending to the likes of the Star Wars programme and so on.

The memory of this failure to embrace solar energy unequivocally, and possibly fear that limited government support might evaporate at any time has had a lingering effect on the take up of solar power and is probably the cause of the credibility gap, a lack of trust in the future of solar power. Over the interim period, however, continual improvements in cost and efficiency have been made.

TODAY

According to Solarbuzz, in 2006 photovoltaic system installations grew 19 per cent to 1,744MW,[3] bringing the total installed capacity to around 9 GW of peak capacity. Of this, about 80 per cent is grid-connected capacity, roughly 18 per cent off-grid (such as in rural areas) and 2 per cent of centralised systems. Germany continued to account for a large percentage of new installation. Growth in Japan slowed, but that was probably likely due to raw silicon constraints, not economics, as the Japanese market is not only the lowest cost/watt module wise, its grid electricity cost is also one of the highest. It is the only market where the solar industry is viable without subsidies.

FIG 4 **Annual added PV capacity**

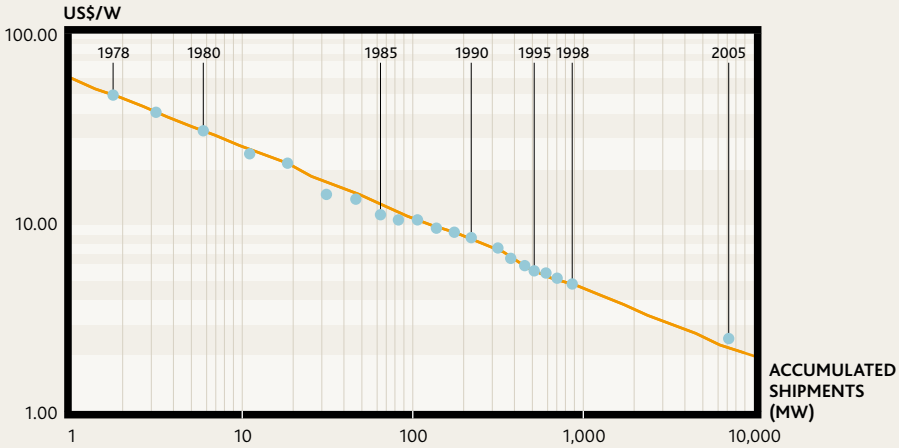


Source: Solarbuzz

3 Assumes peak electrical generation in perfect conditions: actual output is this figure multiplied by hours of sunlight.

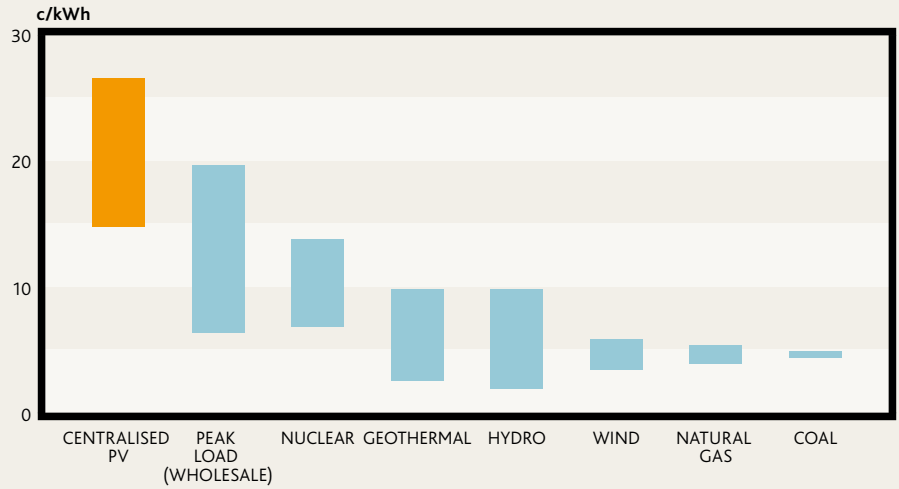
Most new technologies start out expensive and difficult to produce, but as experience and scale grow, costs come down.

FIG 5 **Average selling price trend of solar**



Source: Power to the People

FIG 6 **Electricity generation costs including peak wholesale**



Source: Solar Revolution

COST TRENDS

Most new technologies start out expensive and difficult to produce, but if it is a promising technology which generates interest, improvements and refinements are made in manufacture. Through time as experience and scale grow, costs come down. For solar, the cost/watt for a cell in the late 1970s was around $25. Now, at as little as $1.50/watt, historically the industry has shown that the per-unit cost has dropped 18-20 per cent with every doubling of the installed volume.

The magic number that the industry is targeting is $1/watt.

GENERATION COST COMPARISONS

As mentioned above, comparing 4c/kWh coal-fired base load to peak load-suited solar is as meaningless as comparing nuclear to hydro. From a utility's perspective, we really should be comparing solar to intermediate and peak load prices. We should also be comparing the cost/kWh delivered not just generated.

Additionally, from a policy perspective, governments should also include the quantifiable external costs, such as the direct pollution costs, destruction of land due to mining, transmission lines, the cost of protecting fuel supplies and waste disposal and the costs of disruptions to centralised distribution. Many of these are paid using taxes or otherwise funded indirectly by governments. One quoted study[4] claims that if these external costs were included in the cost of electricity, the cost of fossil fuels would increase between 30-90 per cent for natural gas and 55-400 per cent for coal.

Distributed generation

While the decision for a grid-tied system is a combination of factors, it really boils down to three things: the cost of the total system, the local retail price of electricity and how much sun the location receives (insolation). In summary, at the current cost/watt installed at around $6 in Japan, $7 in Germany and $8 in the US this translates into 15-30c/kWh for solar. With grid prices ranging between 7-30c/kWh in OECD countries, distributed solar is competitive now in some areas, and will only continue to increase as system costs continue to fall.

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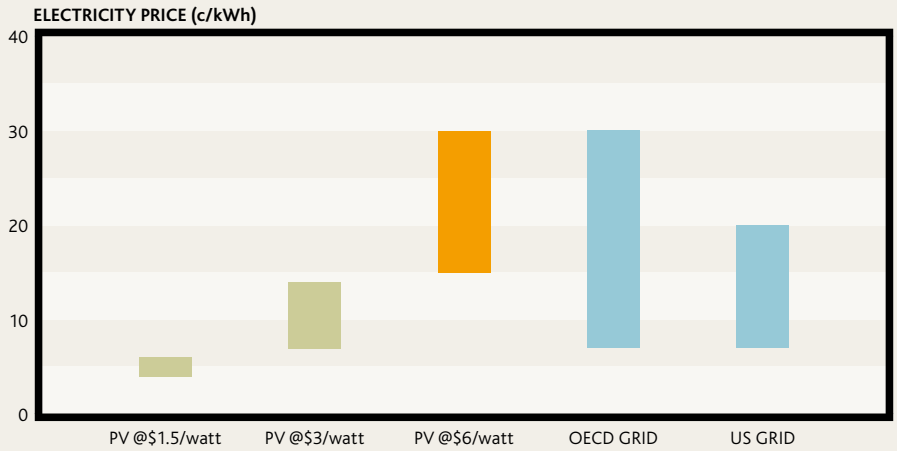
4 Janet Sawin, *Mainstreaming Renewable Energy in the Twenty-First Century* (Washington, DC: Worldwatch Institute, 2004)

TAB 2 Simple regional comparison of rooftop solar installations

	BERLIN GERMANY	MADRID SPAIN	LA USA	TOKYO JAPAN	NAPLES ITALY	ATHENS GREECE
System cost ($/W)	7.2	7.9	8.2	6.1	8.1	8.0
Less subsidies ($/W)	0	0	4.5	0	0	0
Upfront cost ($/kW)	7,200	7,900	3,700	6,100	8,100	8,000
Energy produced (kWh/year)	918	1,567	1,747	1,278	1,368	1,564
Cost (c/kWh assuming 25-yr life)	**31.4**	**20.2**	**8.5**	**19.1**	**23.7**	**20.5**
Feed-in tariffs (where available)						
Tariff (c/kWh)	63.96	57.2			63.7	61.1
Annual income ($)	587	896			871	956
No net metering						
Typical grid price (c/kWh)	20.2	15.8	14.0	21.0	19.0	11.2
Annual saving ($)			245	268		

FIG 7 PV compared to grid prices



Source: Solar Revolution

GLOBAL SOLAR INSOLATION

The nuclear fusion reaction that powers the sun emits prodigious amounts of energy. For a star like our sun, about half this energy is in the visible light spectrum, the other half near infrared and a little ultraviolet. The amount of this energy that reaches the Earth is called the solar constant, and while it can fluctuate up to 7 per cent a year on solar activity and our distance from the sun, it is about 1,366 W/m^2. That means that at any point in time, the Earth is being bathed in 174,000 terawatts of energy. For even more perspective, because of our distance from the Sun we receive only one two billionth of the total energy radiated.

Naturally, to reach the surface, this light must pass through the atmosphere, which absorbs some of its energy. Also, the amount of light reaching any point on the planet is also dependent on its latitude – the higher the latitude, the less light. However, the average insolation in temperate, sunny areas is estimated at around 1,000 W/m^2 at midday.

Why is this important? Average insolation has a big impact on the cost of generating solar electricity and can help us estimate how many solar panels we might need to meet our energy needs. High latitude regions, or areas with poor weather may have much lower average insolation than hot, dry regions near the equator. For example, it can range from as little as 2 kWh/m^2/day in northern Europe up to as much as 8 kWh/m^2/day in outback Australia. The table and chart on page xxiv show actual average annual values for regions around the globe.

SUBSIDIES

The most successful driver for the adoption of solar has been the introduction of feed-in tariffs. Knowing for certain what you'll get paid for each kWh generated (and for how long you'll continue to get it) makes it very easy to work out the return.

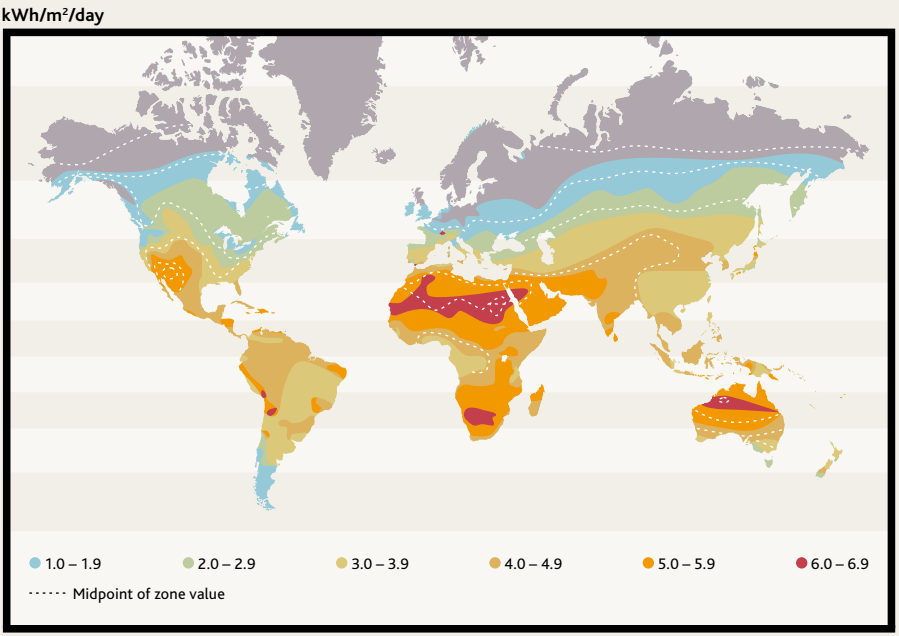
In Germany, you will get roughly €0.50/kWh for twenty years, with the tariff falling 5 per cent each year for new contracts. Similar programs now exist in Spain, Greece, France and Italy. California has feed-in tariffs now too, but the guaranteed contract is for only five years and then phased out as the installed capacity reaches 3 GW.

Subsidies are a great way to incubate an industry and help get the systems in place to overcome the hidden costs of solar. This country is a great example of how not to support a budding industry – Dr Martin Green and UNSW have pioneered research and PV manufacturing for years and tried to set up manufacturing capacity here (Pacific Solar) as early as 1995. Eventually they gave up and sold all their assets and technology to CSG in Germany. Likewise, Suntech in China is run by a group

TAB 3 Example solar insolation ranges

	kWh/m²/DAY	kWh/m²/YEAR	WATTS/m²	EXAMPLE
Outback Australia	5.8 – 6.8	2,100 – 2,500	240 – 285	Sydney: 4.59
Southwest USA	4.7 – 5.8	1,700 – 2,100	194 – 240	LA: 5.40
Spain	4.4 – 4.8	1,600 – 1,750	183 – 200	Madrid: 4.62
Germany	2.9 – 3.8	1,050 – 1,400	120 – 160	Munich: 2.98

FIG 8 Global solar insolation map



Source: Solar Revolution

of Martin Green's colleagues. It may be wishful thinking, but surely there is enough imagination among the bureaucracy to identify the benefits from seeding solar start-ups that have accrued to countries such as Germany?

THE HIDDEN COSTS OF SOLAR

The existing electrical utility industry has 100 years of experience which results in a system where arranging for electricity to be connected and disconnected requires a single phone call and the only further effort required is to pay a quarterly bill. Under the surface of that bill are the myriad of decisions the utility makes for you – how much to spend on new capacity, how to finance that capacity and how maintenance will be carried out and so on.

By comparison, should a consumer consider the installation of a solar system, not only does one have to evaluate different system manufacturers and installers, there are the additional hurdles of finance, the return, the workings of feed-in prices and rebates and even net-metering availability. For many, this onerous exercise outweighs any benefits that such a system might provide.

With time, services and businesses will emerge to fill this gap and make the task easier, but for that to happen we also need a consistent framework to work in. The success of solar in Germany can be attributed to just two things:

Stability

For people to consider installing and for businesses to take the risk of making their livelihood dependent on a nascent industry, government subsidies have to be consistent and durable.

For example, the utilities would need to be required to pay a certain feed-in tariff for a set number of years, making it possible to calculate the return.

Performance based subsidy

Instead of an initial up-front rebate, the subsidy should be performance based; that is, by setting the fee based on $/kWh, it keeps the module/system providers honest. They can't just claim a system is x kW, in order to get the rebate, they have to actually produce the electricity and it impels the buyers of the system to keep it maintained over its lifetime.

(By comparison, previous rebates in Australia were just up-front system rebates, and the total budgeted amount was fixed for the year, meaning it often ran out after a few months. Not a good framework to base one's business on.)

Growth scenario

In 2004 the IEA estimated that total global electricity production was 17,531 TWh.[5] With an estimated installed solar capacity of around 6 GW (about 9 GW at the end of 2006), assuming an average of 1,500 kWh/m^2/year and 12 per cent conversion efficiencies, that's roughly 9 TWh of electricity from solar, or just 0.05 per cent of total production. Fossil fuels, on the other hand still account for more than two thirds of total electricity production.

So what if, say, by 2020 we wanted solar to account for just 5 per cent of electricity production? How many solar panels and how much silicon would this entail?

Assuming total electricity demand to grow at 2.5 per cent, by 2020 it will become about 26,000 TWh. Around 5 per cent of that is 1,300 TWh, or 145 times current capacity. Even accounting for a slight improvement in module efficiency, this translates into an annual growth rate of 37 per cent. In total area terms, this is just under 6,000 km^2, which sounds like a lot, but when compared to say planting corn to make ethanol or palm trees for bio-diesel, it's trivial. Moreover one can use dead space such as rooftops and building facades instead of farmland used for food or even worse, existing forest which is bulldozed for the purpose.

Put another way, the LCD industry may produce an estimated 73,000 million in^2 (47 km^2) in 2007. Last year total solar panel production was 2.5 GW, which is roughly 21 km^2.

At a loftier target of 20 per cent of electricity production, the total space required would grow to 23,000 km^2, or an area the size of Macedonia or one-third the size of Tasmania. This is still only 0.016 per cent of the total landmass of the planet. We lose twice as much arable farmland every year to wind and water erosion, salination and desertification. Deforestation is running at 315,000 km^2/year.

And to restate the obvious, most of these panels can be installed on buildings that are already using the land they're standing on. There's no need to sacrifice, say, arable land for new capacity. With cities and residences covering an estimated 580,000 km^2 globally, that's a lot of available rooftop space.

SILICON DEMAND

Of course, the question then is what does this mean for the most important (at this stage) input? Using the same 5 per cent target, assuming thin film cells grow to

5 About the same amount of solar energy the Earth receives from the sun every six minutes.

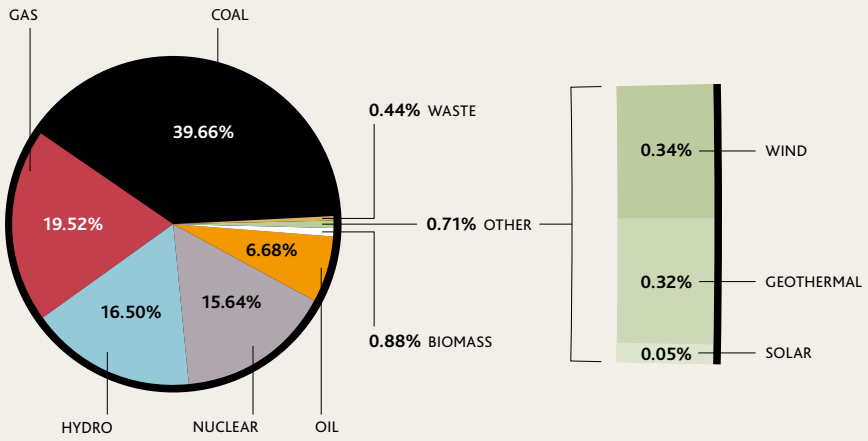
become 40 per cent of the market and average use/cell drops from 11 g/W today to just 7 g/W (thinner wafers, less waste), silicon demand will still grow 44-fold from 19-20,000 t today to around one million tonnes annually.

This is generally seen as a high barrier to entry market and at present there are only six volume manufacturers. There's more detail below, but unfortunately there is a very high risk that processes that can produce solar quality silicon at very low cost are on the verge of becoming commercialised, potentially changing the industry landscape.

ACCELERATING ADOPTION

There are a number of ways the adoption of PV can be accelerated. The first is to eliminate direct and indirect subsidies of fossil and nuclear fuels, which are estimated at $131 billion globally, plus a further $200 billion for indirect benefits (tax benefits, military spending to secure fuel, environmental protection constraints). According

FIG 9 **Electricity generation by fuel source**



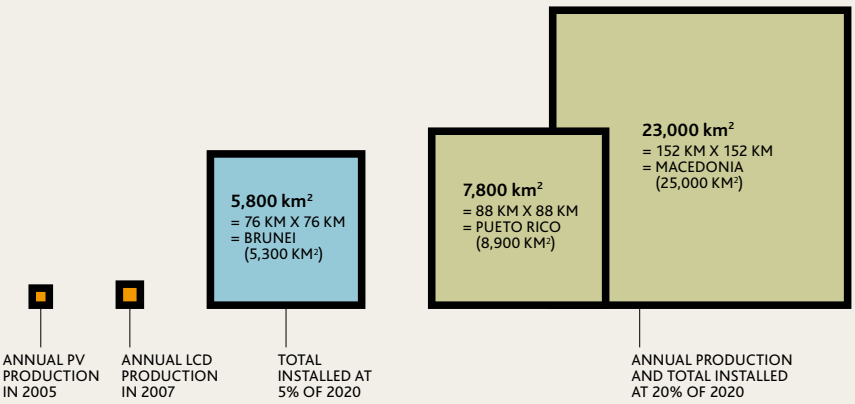
Source: IEA

to Solar Revolution, $10.3 million of political contributions by American oil and gas companies between 1993 and 1996 resulted in $4 billion of tax breaks. (Jefferies Research says that the Democrats are proposing reduced tax cuts and higher royalty payments for government land used by the oil industry.)

A second way is to introduce incentives to adopt solar. Feed-in tariffs, rebates and tax credits can all help get the industry off the ground, as Japan and Germany have shown. Net metering rules need to exist and approvals need to be easy to get. With the likely repricing of fossil fuel based production, following the eventual introduction of carbon trading rights, the cost gap will become more apparent.

For the first time in history, grid-connected PV systems have become cost competitive in a number of markets. So, it's no longer a question of if, but when. We are only limited by perception and an underdeveloped supply chain to help buyers make the right decision, finance their purchase and install the system.

FIG 10 **Comparison of potential solar production volume and installed base**



PV AS % OF TOTAL SUPPLY (2020 = 26,000 TWH)	PRODUCTION TWh	CAPACITY GWp	TOTAL AREA KM²
Today (0.05%)	9	6	50
5%	1,300	897	5,800
20%	5,200	3,470	23,000

Energy payback

The myth that it takes more energy to manufacture a solar panel than that panel will produce over its lifetime is just that – a myth. For most locations and for both thin-film and crystalline silicon cells, cells will produce more energy than required to make them in one to three years, including the frame and balance of system.

Assuming the cells are manufactured using electricity generated by traditional sources (35 per cent conversion efficiency, meaning 1 MJ [0.278 kWh] of primary energy will produce 35 per cent times 0.2777 = 0.097 kWh electricity) Dutch researcher Alsema[6] calculated that the energy required to manufacture solar cells ranged between 600-1,350 kWh/m^2 (6,000-14,000 MJ) for mono-crystalline silicon and 400-1,100 kWh/m^2 for poly-crystalline silicon. For mono/poly silicon, the bulk of the energy is consumed purifying and crystallising the silicon, accounting for between 60-80 per cent of all electricity consumed.

For thin-film modules, there is no need for purified silicon manufactured into crystalline wafers as the cells are formed by vapour deposition and hence this material only accounts for about 4 per cent of total energy input, making overall energy requirements much lower. In fact, aside from the actual processing (33 per cent),

TAB 4 **Energy payback (module only)**

	MONO-CRYSTALLINE	POLY-CRYSTALLINE	THIN FILM
Manufacturing energy (kWh/m^2)	600	420	120
Conversion efficiency	14%	12%	6%
Available annual sunlight energy (kWh/m^2)	1,700	1,700	1,700
Electricity produced (kWh)	238	204	102
Payback (years)	**2.52**	**2.06**	**1.18**

6 E. Alsema, *Energy Requirements and CO_2 Mitigation Potential of PV Systems* (July 1998)

the energy required to manufacture the glass substrate becomes one of the largest costs, at close to 29 per cent.

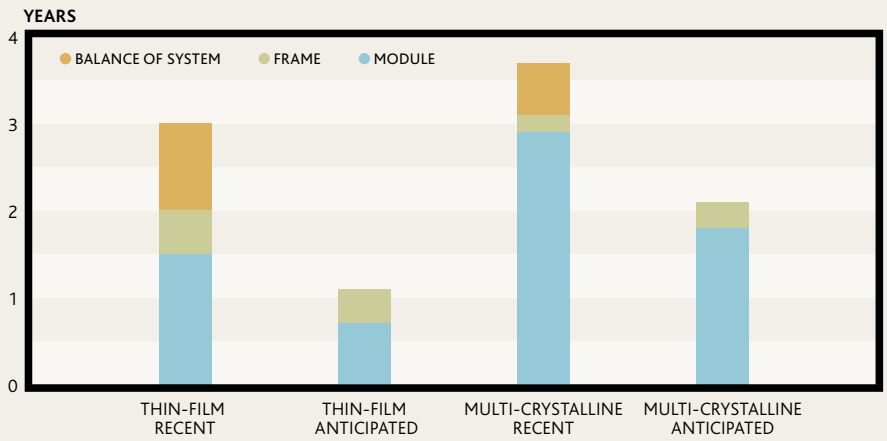
The available annual sunlight energy assumption used is 1,700 kWh/m^2. (The average for the US is 1,800 kWh/m^2 and in the southwest it gets as high as 2,500 kWh/m^2.) Based on that, module-only payback can be as little as two years for polycrystalline silicon cells and just one year for thin-film, despite its lower conversion efficiency.

Balance of system calculations are made assuming grid-connected roof-top systems. The bulk of this, not surprisingly, is in the aluminium frames and roof supports. The lower efficiency of thin-film means bigger frames and supports for the same energy output, almost negating the lower energy consumed manufacturing the cells. The contribution from the inverter and cabling is small.

Based on original old 1998 data, the energy payback ranged from 3-8 years. In 2004 that had fallen to 3-4 years. Today, it could be as low as one year for thin film and two for poly-crystalline roof-top systems.

As an example, take a typical 3 kW poly-crystalline roof-top system. In an area that receives 1,700 kWh/m^2 per year (same as above), such a system could potentially produce 142 MWh of net clean energy over its lifetime.

FIG 11 **Energy payback by technology (system)**



Source: U.S. Department of Energy, National Renewable Energy Laboratory

Manufacture

As mentioned in the payback section, there are two main types of solar cell – crystalline and thin film. While the manufacturing processes are very different, the principle on which they work is the same. Solar cells are 'quantum' devices, meaning that a photon of light can cause one electron to flow through the contacts on a cell. This is glossing over a complicated theory, but solar cells are basically a p-n semiconductor junction that converts light directly into a flow of electricity, much like a battery uses a chemical reaction to produce a flow of electricity.

Many materials can be used as semiconductors, but not only was silicon the first discovered, but its abundance and relatively simple manufacturing have made it the staple of the chip industry. Likewise, it has also become the dominant semiconducting material used in solar cells. In fact, until the industry became so large that it started demanding its own supply of silicon, the solar industry relied on scrap wafers that the chip industry would normally have thrown away.

CRYSTALLINE SILICON CELLS

To broadly summarise, a cell maker will melt pure silicon in a large mould, solidify this and cut it into rectangular ingots. This ingot is then cut into square wafers (like a loaf of bread might be sliced) where each wafer is around 0.2 mm thick. These wafers are then processed into cells by doping (implanting phosphorus and boron atoms in the silicon) to give the p-n junction. The surface is given an anti-reflective coating and electrical contacts are screen printed onto the wafer (both front and back). These completed cells are then assembled into a module, which is basically a large aluminium frame on which the cells are mounted, wired together and then sealed under a pane of glass.

Such modules make up the bulk of all panels sold today. Yet the manufacturing process is somewhat tedious and still requires manual labour, a hurdle to achieving the kind of scale mentioned earlier. Additionally, a lot of relatively expensive silicon is wasted when slicing wafers (some 40 per cent).

THIN FILM

Thin film solar cells attempt to overcome the limitations of discrete crystalline silicon cells. Firstly, input material use is much lower and there's little waste. Instead of cutting wafers, the semiconducting material is deposited on a glass (or other) substrate using a deposition process, borrowed from the chip industry, called chemical vapour deposition (CVD). This puts down a layer of material that is a tiny fraction of the thickness of crystalline cells, usually less than 0.005mm. This manufacturing process

holds the promise of better scalability for much larger sizes and can potentially be manufactured as a continuous rather than a batch process.

However, limitations in the material processes mean that thin film cells are generally much less efficient in converting light into electricity (maximum of 10 per cent currently for thin film compared to 18 per cent for crystalline) as well as requiring a somewhat higher initial investment in equipment. As it is still early in the learning curve thin film systems are only approximately cost competitive on an installed-basis with crystalline silicon cells, and that is conditional on the trade off of area available. Lower efficiencies mean that larger and more numerous frames, cabling and equipment are needed, pushing up the total system costs.

TAB 5 Manufacturing costs and cost adjusted for difference in balance of system costs

	CELL ONLY	ADJUSTED
Crystalline wafer	$2.60/W	$2.70/W
CdTe	1.40/W	$2.60/W
Amorphous silicon	$3.30/W	$4.50/W
CSG	$2.90/W	$4.20/W
CIGS/CIS	$2.00/W	$3.30/W

Source: Morgan Stanley

TAB 6 Solar cell technology comparison

	EFFICIENCY	POTENTIAL	NOTES
Crystalline wafer	15-17%	25%	Stable over time, efficiency drops as temperature rises, poor shade performance
CdTe	9-11%	12%	Cadmium toxicity concerns, but good low-light/ shade performance
Amorphous silicon	6-10%	11%	Degrades slowly over time (but improving), tandem cells have higher conversion
CSG	6-8%	10%	Promises best of both crystalline and amorphous silicon
CIGS/CIS	9-12%	15-18%	Potentially much higher conversion efficiencies.

The myth that it takes more energy to manufacture a solar panel than that panel will produce over its lifetime is just that – a myth.

Because thin film uses only a tiny fraction of silicon (or other materials) it also frees developers from material constraints. They can therefore experiment with semiconducting materials that would otherwise be too rare or expensive to use. For example, Boeing subsidiary Spectrolab produces what it calls 'Ultra Triple Junction' solar cells for space applications which have a conversion efficiency of 28 per cent, and are a combination of $GaInP_2$ and GaAs cells on a Germanium substrate. Such cells, because of the substrate, wouldn't make sense for general applications, but it is indicative of the potential of thin film.

At present, the three most promising combinations (in terms of both efficiency and manufacturability) are dual-junction (tandem) amorphous/crystalline silicon cells, Cadmium Telluride (CdTe) and Copper Indium Gallium Diselenide (CIS/CIGS) cells.

Like polysilicon, there are plenty of announced plans to start production, but because manufacture requires the ability to consistently deposit semiconductor materials on substrates that are on par with LCD mother glass in size, the initial learning curve is steep.

The solar value chain

According to CLSA, there are some 500 companies involved in the solar food chain. With the fewest number of competitors, the highest apparent barriers to entry and a protracted supply-demand imbalance, the polysilicon makers have been one of the main areas of focus. While much less difficult to manufacture, some semiconductor wafer makers have started making polycrystalline silicon ingots and wafers. Most cell makers also make their own modules (the actual panel exposed to the sun), and some also supply the supporting equipment such as inverters and do installation too. There are also a number of companies vertically integrated across the value chain, and others who are attempting to widen their breadth.

There is also a budding market for suppliers of the equipment that actually processes the silicon or thin film substrate, bringing across their experience from the manufacture of LCD panels (flat screen TVs and monitors).

SILICON MANUFACTURE

Manufacturing silicon with existing processes is a capital and energy intensive endeavour. Building a new plant can take two years (three including planning) and today cost around $200m/1000 t of capacity (up 30-40 per cent since 2000 according to Tokuyama). The plants can be likened to a petrochemical plant, as to get the

purities needed requires the use of fractional distillation of chlorosilanes. They are difficult to operate, require plenty of people and deal with corrosive and explosive inputs, such as pure hydrogen. The main steps in producing solar/semiconductor grade polycrystalline silicon are outlined below:

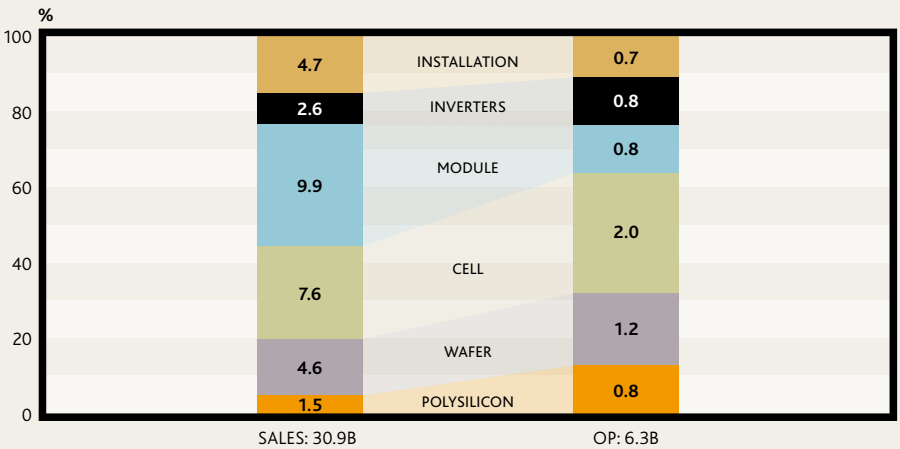
Metallurgical grade silicon

The first step in manufacturing metallurgical grade silicon from mined SiO_2 (silica, quartz sand). It is melted and taken through a number of reactions (carbothermic reduction: $SiO_2 + C \rightarrow Si + CO_2$) in electrical arc furnaces at temperatures between 1500-2000 C, producing metallurgical grade silicon, which still contains too many impurities for use in electronics. This is usually the input purchased by the polysilicon makers. Purity levels are around 98.5 per cent silicon. Prices are only $1-2/kg.

Trichlorosilane (TCS)

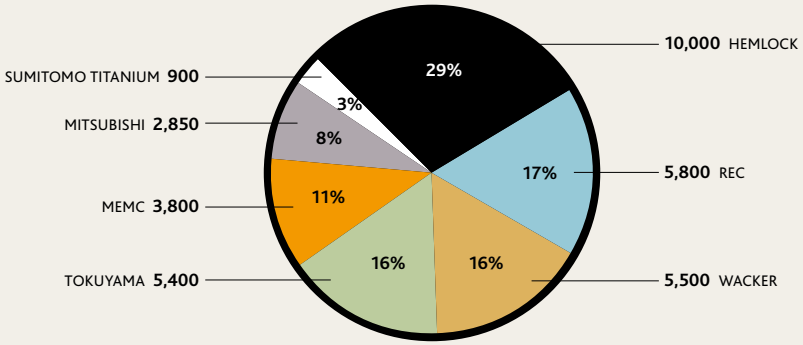
Powdered silicon is reacted with HCl (hydrochloric acid) in a fluidised-bed reactor at around 300 C to create trichlorosilane, in the process removing impurities such as iron and aluminium. The TCS is then fractionally distilled to bring the impurities down to the part-per-billion level and diluted with hydrogen to prepare it for the polysilicon deposition process.

FIG 12 **Industry sales and operating profits**



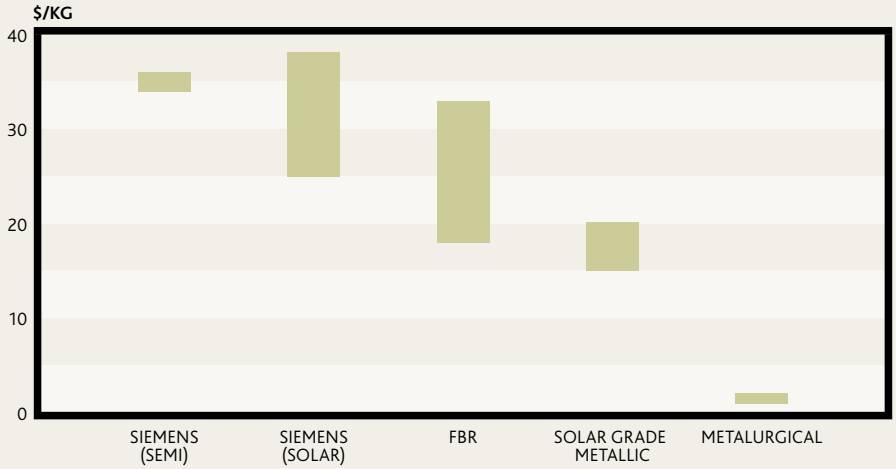
Source: CLSA

FIG 13 **Polysilicon capacity 2006**



Source: CLSA

FIG 14 **Polysilicon manufacturing costs**



Source: Goodman Sachs

Polysilicon manufacture

Under the Siemens' process, slim rods of pure silicon are heated to 1100 C in a chamber through which the diluted TCS is passed. At these temperatures, the gas is reduced to silicon at the surface of the rod, which slowly grows over a number of days up to a 20 cm diameter. Some of the waste gas is $SiCl_4$, which has applications in other chemical processes, such as silicones. At this point the metal contamination levels are less than 1/100 parts per billion and dopant impurities less than 1 part per billion. This forms the input of either polysilicon ingots for solar cells or monocrystalline ingots for semiconductors. All up, the cost to produce polysilicon of this grade costs around $30/kg (of which 40 per cent is electricity).

As of 2006, there were six established manufacturers with about 35,000 t of capacity, of which about 16,000 t went to solar applications. (The gap between this and the estimated 19,000 t used is inventory drawdown.) In terms of expansion, Hemlock plans to reach 19,000 t by 2010 (with another 17,000 t announced), Wacker 14,000 t and REC 13,500 t. The Japanese are more conservative, Tokuyama adding just 2,800 t capacity over the same period.

Total industry capacity forecasts range from about 100,000 t (CLSA) in 2020 up to 200,000 t. Assuming $200m/1000 t capacity, that's a potential $13-33b of orders for the likes of Fluor, JGC and Chiyoda. Of course, that's oversimplifying somewhat. According to Tokuyama, there are a wide range of contractors involved in a new plant (20+ according to GS.) Tokuyama are very suspicious of many of these capacity announcements, especially Greenfield plants by companies with no prior polysilicon expertise. If these plans are to be believed, we should see a flood of capacity emerging in 2007 and 2008, growth slowing after that.

THE METALLURGICAL SILICON THREAT

The solar industry has grown on excess supply of silicon manufactured for the semiconductor industry, but in reality it doesn't require the same ultra-high purity. The semiconductor industry requires 9N purity (99.9999999 per cent pure) but the solar industry can do with just 6N. Therefore, there are a number of groups working to create solar-standard silicon just using the metallurgical process (and other processes) and eliminating the costly TCS/polysilicon stages.

Metallurgical (MG) silicon (JFE Steel, Elkem, Solarvalue, Dow Corning)

Basically a more refined version of the first step in making traditional Siemens' process polysilicon. Purity can be enhanced with further physical purification, such as directional solidification (casting.) This supposedly can be done for $15/kg, but

The solar industry is potentially on the verge of a protracted period of strong growth.

no producer yet can make commercial quantities in the purity required for solar. Elkem and Dow Corning, for example, are suggesting their clients blend 10 per cent metallurgical silicon with traditional high quality silicon.

Industry research indicates that we should expect about 7,000 t of MG-Si this year, from the likes of Elkem (part of the Norwegian Orkla industrial group), SolarValue and JFE Steel.

Fluidised bed reaction (REC, MEMC)

This process sounds like the reverse of the second step used to purify silicon above. Silane and heated hydrogen are passed through a fluidised bed of silicon granules 'seeds', upon which silicon is deposited. According to REC, energy requirements are 80-90 per cent lower than the Siemens' process, making it potentially much cheaper. This appears to be on the verge of commercialisation and REC claim it costs less than 70 per cent of Siemens' process, and has qualities close to, but not quite up to, semiconductor requirements. Capex is estimated to be similar to Siemens' process, at around $100,000/t.

RISK OF LONG-TERM STRUCTURAL SHORTAGE?

In conclusion, the existing polysilicon industry is structured to support the semiconductor industry. That is, to provide a specialised product that has the high purity and low defects to enable ever shrinking line widths. The solar industry, while using the same material, is about ever increasing areas and volumes of a commodity material. The Siemens' process is well suited to the former, not the latter. However, because of the need to blend, metallurgical silicon is perversely dependent on a supply of Siemens' process silicon. Also, according to Tokuyama, FBR is still having problems in commercialisation. (Tokuyama have their own low-cost technology under development but that's still struggling too.)

Similar and more severe issues confront all these Greenfield plants by newcomers who claim they can get a new plant constructed and ramped up in two years, when experienced makers with decades of experience need 3-4 years. Tokuyama's experience is that just finding and training people with the skills to run these plants is a challenge. It's not an exaggeration to say that execution risks are high and many will probably fail.

Making matters more confusing, consider the situation if, through public pressure on governments, we are forced to acknowledge the true cost of generating electricity with fossil-fuels? It will cause the cost target for solar to move upwards significantly. In such an environment, producers may stick with the tried-and-true Siemens'

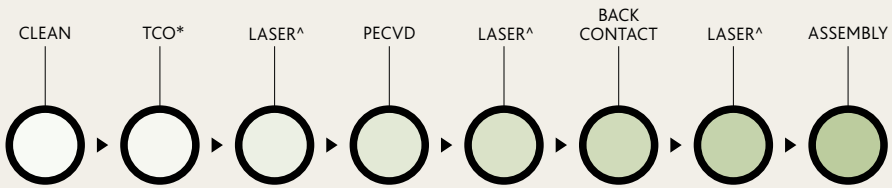
process to meet demand. In fact, Tokuyama believe that a Siemens' process plant tailored for solar-use silicon could be 20-30 per cent cheaper.

INGOTS, WAFERS AND CELLS

Solar ingots, wafers and cells are the next part of the value chain and are a step down in terms of difficulty and costs. It goes without saying that solar cells are a commodity – no one cares about what brand cells are on their roof. The industry also already has quite stringent standards, so regardless of the supplier, a 120 W module is going to produce 120 W. Likewise, because pricing is determined by output, a cell maker is both trying to reduce manufacturing costs while at the same time improving efficiency. Costs can be reduced by, for example, cutting thinner wafers from ingots (which can have the adverse affect of reducing yields because of breakage). In crystalline silicon cells, there's not much difference between makers when it comes to conversion efficiency, but a percent or two can have significant impact on costs. For example, Sharp has developed a multi-crystalline cell that has a conversion efficiency of 18 per cent. This 2-3 per cent efficiency advantage translates into an 8-10 per cent cost advantage, according to work done by Morgan Stanley.

Some argue that for this reason, you can't count the Japanese out completely. The Chinese might have the advantage when it comes to labour (a lot of testing and sorting is done by hand), but they are getting away with flushing toxic wafer polishing materials into the environment, and are also spending less on research and development (excluding Suntech).

FIG 15 **Thin film cell manufacturing process**



*** TCO:** TRANSPARENT, CONDUCTIVE OXIDE LAYER – TRANSPARENT ELECTRICAL CONTACTS ON THE FRONT.

^ LASER: BECAUSE THE THIN FILM IS DEPOSITED EVENLY ACROSS THE WHOLE SURFACE, LASERS ARE USED TO CUT INDIVIDUAL CELLS IN THE MODULE.

Source: Oerlikon

EQUIPMENT

The most important step in manufacturing a thin film cell is the depositing of the semiconductor material, be it silicon or other more exotic materials. This is done with chemical vapour deposition (CVD) tools, which are something akin to a big high-temperature oven in which the temperatures trigger a reaction (often combined with an electrical charge to enhance the reaction) between the surface of the substrate and a gas introduced into the chamber. CVD is an integral step in all semiconductor manufacture, and thin film is no different. However, the steps used are much fewer and less complicated than either semiconductors or LCD. The example on the previous page is from Oerlikon, a manufacturer of CVD equipment.

Investment opportunities

This is an industry that is potentially on the verge of a protracted period of strong growth. However it is also a nascent industry in flux – we don't and cannot yet know which technologies will prevail and there will without a doubt be setbacks and industry consolidation along the way. This makes investing in this area an inherently high-risk proposition. Keeping that in perspective, we particularly like the prospects of the companies that supply equipment to the industry, such as Applied Materials in the US and Ulvac in Japan. While a small percentage of sales today, the size of this market has the potential to dwarf even that of LCDs.

The supply of silicon continues to be a bottleneck, making it a very profitable business for those involved. These profits have of course attracted lots of newcomers and alternative technologies, but well run, established silicon manufacturers such as Wacker Chemie in Germany look interesting. In the cells and modules, Sharp of Japan has a long track record and remains the world's largest maker of photovoltaic systems. In Sharp's case, solar is currently a very small part (5 per cent of sales) of a big company, but like Applied Materials, over the long term, it has the potential to become an important part of the company's business.

All of these ideas are admittedly somewhat oblique. For more direct exposure there are a number of companies in Europe that have grown rapidly over the last five years, taking advantage of a fast growing German market, such as Renewable Energy Corp. of Norway, and Q-Cells and SolarWorld of Germany. The stock market has hardly neglected the potential of this exotic industry and some share prices seem to defy logic. At the early stages of wind power there was similar market exuberant expectation but as often happens, there are many falls on the way to enlightenment.

Additional reading

Bradford, Travis. *Solar Revolution: the economic transformation of the global energy industry* (Cambridge: The MIT Press)

Green, Martin. *Power to the people: sunlight to electricity using solar cells*. (Sydney: University of New South Wales Press)

Platinum®
CAPITAL LIMITED
ABN 51 063 975 431

2007 Annual Report

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

Contents

Chairman's Report

INVESTMENT PERFORMANCE

Platinum Capital's performance in the 12 months to 30 June 2007 was disappointing. During the year, the net asset value increased by 5.5% pre-tax and by 4.2% after allowing for all tax liabilities both realised and unrealised. For a comparison the benchmark Morgan Stanley Capital Index rose 9.7% for the 12 months.

This short-term performance should be seen in the context of the long-term results which are more than satisfactory. Since its inception in 1994 the compound annual appreciation of the Company's assets on a pre-tax basis has been 16.2% compared to the return from the MSCI of 8.2%. The comparable return from the Australian All Ordinaries Accumulation Index has been 13.7% annually over the 13 years.

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

	1 YEAR	3 YEARS (COMPOUND PA)	5 YEARS (COMPOUND PA)	SINCE INCEPTION (13 YEARS COMPOUND PA)	SINCE INCEPTION (CUMULATIVE)
PCL	5.5	9.4	10.2	16.2	603.6
MSCI*	9.7	10.5	5.8	8.2	177.3

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

DIVIDENDS

A fully franked final dividend of 10 cents is recommended, making 15 cents for the full year. Your Directors' policy of smoothing dividend payments over time continues. The Directors are proposing to maintain the final dividend at 10 cents, despite a 73.6% decline in profit. Shareholders will realise that this policy of smoothing dividends does not represent a guarantee. The ability of the Company to pay dividends must be a function of the return over time from the investment portfolio.

CORPORATE GOVERNANCE – INTERNATIONAL ACCOUNTING STANDARDS

This Annual Report is prepared under Australian International Financial Reporting Standards.

It is worth re-stating the reference in my 2005 Chairman's Report to the impact of the International Accounting Standards on an investment company like Platinum Capital Limited. "Under the International Accounting Standards recorded profits or losses will be much more variable. As changes in the market value of the Company's total assets are reflected through the profit and loss account, reported profits could look very unstable".

"It is now more true than ever that the longer term movement of asset values, combined with the flow of dividends, is a better measure of the performance of a listed investment company, such as Platinum Capital, than necessarily more volatile day-by-day, quarter-by-quarter or even year-by-year fluctuations".

ENVIRONMENT

Included in this Annual Report is an internal note prepared by the Manager's analyst, Curtis Cifuentes, titled the 'Case for Solar'.

The Manager reports that it is carbon neutral (as is your Company), having purchased carbon credits to offset its carbon emissions. The next step being undertaken by the Manager's staff is to reduce the Manager's carbon emissions. This is an ongoing task.

OUTLOOK FOR 2007 – 2008

The Manager makes it clear that "Our inherent aversion to risk has clearly retarded our performance". In essence, "the scale of the recent expansion in credit markets is unprecedented… and… investors in stocks are behaving in rational accordance with the signals they are receiving".

Chairman's Report

continued

So, how to make a judgement call on the future ? The distortions in the global economy remain in place so, as a consequence, the Manager sees a need to "maintain a level of insurance on account of the system's unsound footing". At the same time the Manager has a high level of confidence in the inherent values in current shareholdings and being able to identify "pools of opportunity".

FINALLY

The Manager's report is required reading for all shareholders! It is a valuable insight into the thought processes and depth of analysis behind the investment decisions made by Kerr Neilson and the team at Platinum Asset Mangement.

Once again I would like to express my sincere appreciation of the efforts of the Manager along with those of my fellow Directors.

Graeme Galt
CHAIRMAN

Investment Manager's Report

PERFORMANCE

The most interesting developments in this latest quarter have been in the US. The slackening of their long-running economic expansion that we saw earlier in the year proved to be no more than a temporary hesitation. As growth resumed so hopes of Fed. action to cut short-term interest rates faded. Long-dated bonds sold off with the yield in the 10 year note rising from 4.6% to 5.1%. It is far from clear, however, whether this reflected increasing inflationary pressures or simply a partial correction to an abnormally shaped yield curve.

Away from the US, confidence in continued growth, already high, strengthened further. There was a rebound in energy prices and strength in commodities generally including foodstuffs. This did not, perhaps surprisingly, lead to any noticeable inflationary fears and the price of gold, often used as a hedge against inflation, was largely unchanged, if anything slightly weaker.

A discordant note came from the development of concerns in the US sub-prime market where several hedge funds had problems with establishing the true value of their portfolios. This has not, so far, significantly affected the availability of funds for leveraged buyouts, though super heated areas of the market, such as REITS, have certainly lost some of their lustre, being down by about 20% from their February peak. We would expect further turbulence in the sub- prime/collateralised debt obligations markets and with it, deeper scrutiny of the nature of the risks lenders are taking. This might well impinge on the LBO market and the valuations of their agents. As you are aware, careless lending practices have been something of a hobbyhorse of ours so we will spare you further sermonising. A telling development is the listing of Blackstone with others to follow.

While our performance versus the market opportunities has improved in the last three and six month periods, the annual figures are still disappointing. Drilling down into the regional contribution over the first half of the year we see the following picture in A$ terms:

Investment Manager's Report

continued

31/12/06 – 30/6/07

	COMPANY RETURN %	REGIONAL RETURN %	COMPANY WEIGHTING %
Asia	7.6%	17.0%	17.0%
Japan	-3.7%	-5.2%	26.0%
North America	13.7%	1.3%	24.0%
Europe	8.7%	4.0%	21.0%
Long equities position	**6.0%**	**2.3%**	**88.5%**

Source: Platinum

Our stock selection was clearly respectable overall although we should have done better in Asia ex-Japan. Our timing and focus in China was particularly unfortunate although we believe we are well positioned to recover lost ground in coming months.

MSCI* World Index Country Performance (AUD)

SECTOR	QUARTER	1 YEAR
Brazil	18%	41%
India	15%	41%
Korea	13%	17%
Germany	11%	30%
Australia	5%	26%
France	5%	15%
UK	2%	12%
Hong Kong	1%	13%
US	1%	5%
Japan	-5%	-6%

Source: MSCI

Our most telling error over the full year was the amount of money committed to the weakest market of all, Japan. This unfortunately was a function of the way we go about managing your money which is to pick individual companies based on value, regardless of their geographic location. This has not been rewarding recently but such apparent misallocations have been experienced in the past only to be revealed later as more to do with timing than anything else.

This leaves us with the much more critical "errors" of shorting in a rollicking bull market and of having an associated hedge by owning the yen. These actions virtually halved the Company's return. As it became clearer that the fundamental drivers of this bull market are still in place, so we reduced both of these defensive positions to attempt to capture a greater portion of the prevailing opportunity. This does not mean that we plan to eliminate these positions. On the tenth anniversary of the debt-induced meltdown in Asia, we are acutely sensitive to the prevailing credit risks.

The Company's performance trailed the MSCI by 0.2% for the quarter, exceeded it by 0.7% for six months and trailed by 4.2% for the year*. While slightly trailing the MSCI over the last three years our performance should be judged in the context of the protection afforded clients by our hedging policy. It is certainly true, however, that the strong Australian dollar and startling performance of the ASX, does for the moment, make all international funds look pedestrian.

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

30 APRIL 2007	31 MAY 2007	30 JUNE 2007
162.18	164.11	164.29

Source: Platinum

* Editor's note: Platinum launched the Platinum International Unhedged Fund earlier this year to address those clients who would prefer to run unadulterated exposure to the markets.

Investment Manager's Report

continued

CURRENCY

The sustained growth outlook and large interest rate differentials again favoured the commodity producing currencies. The yen suffered further loss of support among Japanese domestic investors as they flocked to alternative currency funds which are promoted on the basis of their yields, with only small print warnings about currency mismatching. At present it requires an ingenious mind to find the attractions of the yen, yet as we have seen in the past, currencies have the capacity to surprise and it can be boldly asserted that the yen is the least owned and cheapest major currency around. We have nevertheless cut some of our yen holdings in favour of the US dollar and we remain 26% hedged back into the Australian dollar.

SHORTING

We continue to gradually replace stock specific shorts with sector specific alternatives. The short sale of REITs is paying off but not sufficiently to give us an overall reward for challenging the majority view. There have been no major changes geographically and a modest reduction in hedging.

ASSET ALLOCATION

Disposition of Assets

REGION	JUN 2007	MAR 2007
Japan	24%	26%
North America	27%	25%
Western Europe	21%	22%
Emerging markets	18%	16%
Cash	10%	11%
Shorts	29%	34%

Source: Platinum

There have been no major changes geographically and a modest reduction in hedging.

CHANGES TO THE PORTFOLIO

We have been gradually concentrating the portfolio in the top 15 positions and these now account for nearly 40% of our long holdings. However, our largest holding, Mosaic has been exceedingly strong lately (+46% in 3 months) and we have been reducing the position. Other sales were the entire position of the paper maker UPM to make way for more pure pulp exposure, the reduction of Samsung Holdings, another hot stock over the quarter, in favour of Samsung Electronics, and additions to our theme of a long cycle of investment in energy-related plant namely JGC and KBR. An emerging theme is the broadening use of LEDs (light emitting diodes) in all lighting categories. This together with our enthusiasm for solar power, has led us to a handful of interesting companies.

With the harsh memories of the IMF crises now fading in Asia, together with the prospect of strong earnings growth, sound balance sheets and sensible valuations, we have been attracted to financial stocks in the region. Improving faith in their economies will favour the investment banks and brokers. Importantly, in both Taiwan and Korea, deregulation of the financial system is encouraging the development of Western-style product distributors.

When looking at companies in China one is often discouraged by valuations, particularly among consumer shares. Having heavily provided for its bad loans, the Bank of China is an interesting beneficiary of the ongoing boom on the mainland. This stock has been relatively weak since listing last year due to concerns about its exposure to the strengthening yuan and its somewhat weaker position than the big three in deposit gathering. On 15.5 times forward earnings and twice book, however, the growth prospects do not look fully appreciated.

CHINA

From virtually all perspectives, China is progressively moving to centre stage. The re-emergence of this behemoth is changing the balance of the world economy. The sheer scale of its currency interventionist policy is unprecedented and consequently difficult to comprehend. With a freely floating exchange rate, demand

Investment Manager's Report

continued

for the yuan would drive up its value significantly. However, under a managed float, the People's Bank of China (PBC) stands in the market matching inflows with an equivalent increase of yuan in circulation. To control what would otherwise be an explosion of domestic money supply, its first line of defence is to issue bonds to recover the newly printed yuan. In addition, it needs to impose increasingly stringent reserve requirements on the banks to control money growth by effectively locking away part of their balance sheets. This circle of intervention is completed by the PBC redeploying the accumulating foreign exchange reserves in the debt markets of its trading partners through the purchase of foreign debt paper and the inevitable downward pressure on global yields.

History indicates that mercantilist policies such as described above result in domestic asset bubbles. Significantly, the greater an economy's ability to export the greater has been the resultant bubble. The best example of this was Taiwan in 1986 when the trade surplus reached over 20% of GDP and even though the currency appreciated by some 30%[1], money supply rose by over 20% fuelling a massive bubble. From September 1985 to April 1990 the stock market exploded upwards 12 fold. As the currency rose it induced a self-fulfilling expectation of further rises and locals brought more funds on shore to participate in the boom even though the authorities did their best to encourage outflows. The introduction of capital gains tax and warnings of impending trouble did nothing to calm the speculative excesses.

A surprising feature of the bubble was that the banks prospered, partly because there was no conventional inflation but mainly because of asset growth. The cauterizing of their balance sheets which involved special reserves requirements that peaked at 40% of deposits, caused them to amplify risk-taking with the residual funds at their disposal… yet investors kept chasing bank shares. They rose on average by 20 fold in THREE years! The other beneficiaries were companies that were domestically orientated, while exporters languished. The same pattern was seen in Korea and

1 At the Plaza Accord in Sept 1985, G5 pressure forced an appreciation of the yen and by default the Korean won and Taiwanese dollar.

Japan but the bubbles there were more modest, the respective market indices rising by ten fold and two and a half fold in about four years from 1985.

The position of China today suggests a similar paradigm. We can expect all manner of policies to be introduced to alleviate the pressure on the yuan, though, rather like sitting on a water bed, pressure relieved in one part will be transferred elsewhere. Outward flows are likely to be encouraged, initially to the likes of Hong Kong and Singapore, with the consequential impact on values. It is unlikely to be a smooth trajectory upward as investors respond to the phalanx of measures introduced to try to calm things down, yet past patterns suggest the market will rise well beyond sustainable value.

One remarkable feature of the industrialisation of China is that despite the distortion of factor input costs, the growth of productivity has been colossal. This has been assisted by the investment by Government in infrastructure (the World Bank unofficially puts this figure at 9% of GDP[2]) with the result that growth has been accomplished without the normal bottlenecks that cause inflation. Another notable feature has been the willingness of world markets to absorb the additions to industrial output made available by the massive expansion of domestic production and the much more constrained growth of domestic consumption. It is also true that economic conditions have been favourable to capital formation in the private sector[3].

At present the US economy is robust but should it falter the fact that it absorbs some 20% of Chinese exports, which accounts for 14% of total US imports will raise concern. Fortunately China's export dependency on the USA is diminishing as new markets take up the running, notably large countries such as India, commodity rich regions like Latin America, Africa, and Russia and its former satellites. Markets other than the US, Europe and Japan now account for 50% of Chinese exports. Unlike Japan during its growth spurt in the 70s, where exports

2 Personal income's share of the economy drifted down over the last 10 years from over 50% to 42%.

3 The lack of a social security net, and the profitability of industry skews the capital to labour share, ensuring a disproportionate allocation to the export sector.

Investment Manager's Report

continued

accounted for mid teens of GNP, China's economy derives a full third of its activity from exports. This clearly exposes the country to economic shocks.

Internally the main risk is inflation. There are already worries about the cost of foodstuffs and any more general price inflation will make the authorities' task of managing the economy materially more difficult.

There is often no substitute for *in situ* discovery and from our recent visit to the two large coastal provinces of Zhejiang and Fujian, where we visited a large number of companies, we can report the following:

1. Cost pressure from labour is rising as willing supply tightens. Wages are growing at about 10% pa. Inducements for skilled supervisors seem to have increased.
2. There is increasing pressure on large and mid-sized companies to pay their proper taxes particularly those relating to workers benefits, healthcare and pensions and this is hurting their competitiveness compared to smaller pirate companies.
3. Invariably those we met were pricing their exports 20 to 30 % below "Western" competitors and yet still made high returns on funds employed, often 20% plus.
4. Many of the companies we saw believed that their export efforts were at an early stage as they were progressing through "supplier accreditation" with foreign multinationals – suggesting that even if and when the yuan strengthens, there is inherent momentum to their sales. It is impossible to say conclusively but perhaps this applies across the country at large.
5. Most managers were looking to move up-market in terms of their technical competence to ameliorate price competition in commodity products. It was astonishing how quickly these skills were being acquired, often with the help of retired Japanese and Korean technicians[4].

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4 This is no illusion; an independent auto manufacturer we visited is now barely keeping up with demand, yet just one year ago its assembly plant seemed more like a warehouse of ill-pressed steel panels. Conditions were shambolic, there were more bodies on the remedial line getting the sledgehammer treatment than those entering the inspection bays!

6. Few regarded their "core business" as sacrosanct; some were willing to consider selling off factories to develop other activities; in one case to move from furniture manufacturing to furniture retailing. Their agility and speed of decision-making and implementation reflected an almost cavalier "can do" optimism.

7. Land is no longer quite as cheap, having escalated by three or four fold since 2003, but it is still cheap by global standards at say, US$250,000 per hectare.

At the political level we formed the view that the Government is serious about tackling the degradation of the environment and pollution and is clamping down on inefficient users of resources through forced closures and tax inducements, reinforced by the mid June '07 removal of tax rebates on energy-hungry and other highly polluting exporters. There is also greater emphasis on industry restructuring and amalgamation among State owned enterprises (SOE), again, to streamline and reduce waste.

Overall, then, while the Chinese economy is vulnerable to slowing exports, the structural imperative to save and the profitability of the corporate sector is such that balance of payments surpluses will continue to mount. Even if domestic rates are raised to attempt to slow the economy and if bank lending is restricted, the system may well be able to circumvent these traditional channels. An upward adjustment of the exchange rate will eventually have to play a part to correct internal bloating expressed in the value of assets, namely property and shares.

OUTLOOK

Our inherent aversion to risk has clearly retarded our performance. It is well known that markets often overshoot but the scale of the recent expansion in credit markets is unprecedented.

Investors in stocks are behaving in rational accordance with the signals they are receiving. They can see that money is cheap and plentiful, company profits are at record levels, and there are no imminent signs that the cost of funds is about to destroy the arbitrage possibilities which exist when earnings yields are way above the cost of borrowing.

Investment Manager's Report

continued

The emerging economies of Asia together with the oil producing regions are continuing to build up foreign exchange reserves and recycling them overseas in volumes that inevitably distort the cost of money.

Among the signals of danger will be the momentum of US economic activity, the levels of protestation regarding "unfair" trade practices, Chinese domestic inflation, the movements of the yen, and a shock to overconfidence resulting in an adverse credit correction.

Our predicament is to gauge how much insurance to run on account of the system's unsound footing and the degree to which we should provide for an "outlier event"[5]. Wary of overplaying our hand, we have reduced our shorts and have cut back on the associated play of holding yen. Our share holdings themselves are characterised by low financial leverage and typically our holdings are not trading at peak margins, are favoured by structural growth drivers and have valuations that are sensible. Importantly, although market valuations are generally high, we are still able to identify pools of opportunity.

Kerr Neilson

MANAGING DIRECTOR

On a separate matter, I owe many of you an apology regarding the floatation of the management company of Platinum Capital. We grossly underestimated the level of interest that would be shown in the listing of the funds management company and when allocating shares in the IPO failed to set aside enough shares for long standing and loyal holders of PMC. Many of you who applied for shares were left empty handed even though you went through the necessary steps of filling in the application form, drawing cheques etc. I have written to many who have expressed their disappointment (and more) regarding this. Please accept my unconditional apology.

5 For those with time and the inclination we can recommend the book *The Black Swan* by Nassim Nicholas Taleb who is an author and mathematical trader with unsettling views about certainty.

Investment Methodology

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

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

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

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

Investment Methodology

continued

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

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

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

Financial Statements 2007

PLATINUM CAPITAL LIMITED

Shareholder Information

Substantial Shareholders

No Shareholders appeared in the Company's Register of Substantial Shareholders, maintained in accordance with section 671B of the *Corporations Act 2001*, as at 2 August 2007.

Distribution of Securities

	CLASS OF EQUITY SECURITY
(i) Distribution schedule of holdings	Ordinary
1 – 1,000	918
1,001 – 5,000	4,394
5,001 – 10,000	3,069
10,001 – 100,000	3,088
100,001 and over	57
Total number of holders	11,526
(ii) Number of holders of less than a marketable parcel	239
(iii) Percentage held by the 20 largest holders	7.68%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of listed equity securities as at 2 August 2007 are listed below:

	NUMBER OF SHARES	%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,203,982	0.97
Forbar Custodians Limited	1,137,542	0.92
UBS Wealth Management Australia Nominees Pty Limited	1,131,453	0.91
Questor Financial Services Limited	897,768	0.72
Mrs Alicia Mae Cox	631,591	0.51
Feboco Investments Pty Limited	599,522	0.48
RBC Dexia Investor Services Australia Nominees Pty Limited	350,738	0.28
Dr Russell Kay Hancock	341,530	0.28
Questor Financial Services Limited	337,809	0.27
Mr Kerr William Neilson	324,019	0.26
ANZ Nominees Limited	310,568	0.25
Poseidon Nominees Pty Limited	300,000	0.24
Custodial Services Limited	283,774	0.23
Australian Executor Trustees Limited	282,200	0.23
KPT Pty Limited	259,838	0.21
Vichem Pty Limited	256,546	0.21
Sylvia Ann Havill & John David Hanning	230,920	0.19
Trust Company Superannuation Services Limited	217,940	0.18
Investment Custodial Services Limited	212,204	0.17
Biogreene Pty Limited	205,960	0.17

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 who is present in person or represented by a proxy or representative shall have one vote for every share held by them.

Platinum's Commitment to Carbon Neutrality

Platinum Capital Limited is committed to reducing the harmful impact it may make on the environment. For example, the use of energy by the management company, is closely monitored, as is the general creation of waste. To the extent, that staff travel in planes or use energy at work, carbon credits are purchased by the Investment Manager, at no cost to Shareholders, as a carbon emission offset.

Distribution of Annual Report to Shareholders

The Law has been amended to allow for a new "opt in" regime in which Shareholders will only receive a printed "hard copy" version of the Annual Report if they request one. The Directors have decided to mail out the 2007 Annual Report to all Shareholders, unless they have "opted out". This position will be kept under review. Please communicate your views to the Company Secretary by email to invest@platinum.com.au.

FINANCIAL CALENDAR

Annual General Meeting	19 October 2007
Ordinary Shares trade ex-dividend	24 October 2007
Record (books close) date for final dividend	30 October 2007
Final dividend paid	14 November 2007

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.

Directors' Report

In respect of the year ended 30 June 2007, the Directors of Platinum Capital Limited (the Company) submit the following report made out in accordance with a resolution of the Directors.

Directors

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

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

Principal Activity

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

Trading Results

The net profit of the Company for the year was $9,111,000 (2006: $34,464,000) after income tax expense of $3,456,000 (2006: $14,425,000).

Dividends

Since the end of the financial year, the Directors have recommended the payment of a 10 cents per share ($12,400,000) fully franked dividend payable to Shareholders on 14 November 2007.

A fully franked interim dividend of 5 cents per share ($6,156,000) was paid on 1 March 2007.

A fully franked final dividend of 10 cents per share ($12,160,000) for the year ended 30 June 2006 was paid on 17 November 2006.

Directors' Report

continued

Review of Operations

The profit before tax was $12,567,000 (2006: $48,889,000) and profit after tax was $9,111,000 (2006: $34,464,000). Income tax expense for the year was $3,456,000 (2006: $14,425,000).

Changes in the State of Affairs

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

Events Subsequent to the end of the Financial Year

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

Likely Developments and Expected Results of Operations

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

Rounding of Amounts

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

Environmental Regulation

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

Auditor

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

Non-audit Services

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.

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

	2007 $	2006 $
Audit services – statutory	**76,480**	82,601
Taxation services – compliance	**29,740**	31,249
Advisory services – advice	**2,333**	–
Advisory services – Foreign tax agent	**2,955**	2,942
Total remuneration	**111,508**	116,792

Auditors' Independence Declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

Information on Directors

Graeme Galt MBA, BCom, FAICD

Independent Non-Executive Director and Chairman for five years and member of the Audit Committee. (Age 67)

Mr Galt has extensive experience in senior line and staff roles, and in consulting positions across a wide range of industries and markets. He has held various directorships in both private and public companies. Mr Galt is a Director of Asian Express Airlines Pty Limited and Senior Advisor to Templeton Galt.

Directors' Report

continued

Peter Clarke BSc (Econ)

Independent Non-Executive Director for eight years and Chairman of the Audit Committee. (Age 71)

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

Bruce Coleman BSc, BCom, CA, FFin

Independent Non-Executive Director for three years and member of the Audit Committee. (Age 57)

Mr Coleman has worked in the Finance and Investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. He has held various directorships within MLC Limited, Lend Lease and the National Australia Banking group. Former Director of MLC Limited from 2001 to 2004. Mr Coleman was appointed as a Non-Executive Director of Platinum Asset Management Limited (the newly-listed holding company of Platinum Investment Management Limited) on 10 April 2007.

Kerr Neilson BCom (UCT), ASIP

Managing Director for 13 years. (Age 57)

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

Andrew Clifford BCom (Hons) (UNSW), ASIA

Director for 13 years. (Age 41)

Relevant interest in 81,004 shares in the Company. Appointed a Director of the Company upon incorporation. He is a Director of Platinum Investment Management Limited, the Company's Investment Manager. Prior to Platinum Investment Management Limited, Mr Clifford was a Vice President at Bankers Trust Australia Limited.

Malcolm Halstead CA

Finance Director and Company Secretary for 13 years. (Age 49)

Relevant interest in 64,804 shares in the Company. Appointed a Director of the Company upon incorporation. He is a Director of Platinum Investment Management Limited, the Company's Investment Manager and was appointed a Director of Platinum Asset Management Limited on 20 February 2007. He is a Director of White Rabbit Gallery Limited. Prior to Platinum, Mr Halstead was a Vice President at Bankers Trust Australia Limited. Previously he was with Price Waterhouse, Sydney and Jolliffe Cork, London.

Directors' Meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2007.

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

Remuneration Report (audited)

Principles used to determine the nature and amount of remuneration

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

Directors' fees

Non-Executive Directors' base remuneration is reviewed annually.

Directors' Report

continued

Retirement benefits for Directors

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

Other benefits (including termination) and incentives

No other benefits and incentives are paid to Directors.

Details of Remuneration

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

NAME	SHORT-TERM BENEFITS SALARY $	POST-EMPLOYMENT BENEFITS SUPERANNUATION $	TOTAL $
G Galt	55,000	4,950	59,950
P Clarke	50,000	–	50,000
B Coleman	50,000	4,500	54,500
Total remuneration	155,000	9,450	164,450

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

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

K Neilson

A Clifford

M Halstead

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

Key Management Personnel Compensation

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

A portion of the compensation paid by Platinum Investment Management Limited to its employees is in relation to managing the affairs of the Company. Platinum Investment Management Limited has not made any determination as to what proportion of its employees' compensation relates to the Company. Platinum Investment Management Limited paid: K Neilson a salary of $207,575 (2006: $250,000) and superannuation of $105,111 (2006: $12,140); A Clifford a salary of $220,302 (2006: $200,000), superannuation of $42,384 (2006: $12,140) and non-monetary benefits $3,415 (2006: $3,470); M Halstead a salary of $250,000 (2006: $200,000) and superannuation of $12,686 (2006: $12,140).

Other Related Parties

Two of the Executive Directors (Messrs Neilson and Halstead) and one of the Non-Executive Directors (B Coleman) are also Directors of Platinum Asset Management Limited. The remuneration paid by Platinum Investment Management Limited to the Executive Directors has been disclosed above. Platinum Investment Management Limited has not made any determination as to what proportion of the Executive Directors' compensation relates to Platinum Asset Management Limited. In his capacity as a Non-Executive Director of Platinum Asset Management Limited, B Coleman was paid a salary of $36,346 (2006: $nil) and superannuation of $2,761 (2006: $nil).

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

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

Directors' Report

continued

Service Agreements

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

G Galt, Chairman and Non-Executive Director

- Commenced on 25 July 2002.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $59,950.

P Clarke, Non-Executive Director

- Commenced on 15 April 1999.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of $50,000.

B Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- No term of agreement has been set unless the Director is not re-elected by Shareholders of the Company.
- Base salary, inclusive of superannuation, for the period ended 30 June 2007 of $54,500.

Share-Based Compensation

No shares or options are granted to Directors.

Directors' Interests in Contracts

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

Directors' Insurance

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

Executives

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

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

Graeme Galt
DIRECTOR

Kerr Neilson
DIRECTOR

Sydney, 8 August 2007

Auditors' Independence Declaration

As lead Auditor for the audit of Platinum Capital Limited for the year ended 30 June 2007, 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.

AJ Loveridge
PARTNER
PRICEWATERHOUSECOOPERS

Sydney, 8 August 2007

Corporate Governance Statement

The Company is a listed investment company. Its shares are traded on the Australian Securities Exchange (ASX). The objective of the Company is to seek long-term capital growth through utilising the skills of the Investment Manager, Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 which trades as "Platinum Asset Management".

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

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

1. The Board of Directors

G Galt

P Clarke

B Coleman

K Neilson

A Clifford

M Halstead

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

The Charter details the functions and responsibilities of the Board.

1.1 Role of the Board

The role of the Board is to ensure:

– the appointed Investment Manager is performing its duties in a skilful and diligent manner, employs qualified and experienced staff and operates appropriate risk monitoring and compliance procedures; and

– the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted.

Corporate Governance Statement

continued

1.2 Responsibilities of the Board

The principal responsibilities of the Board include:

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

1.3 Composition of the Board

The Board comprises three Executive Directors (K Neilson, A Clifford and M Halstead) and three Non-Executive Directors (G Galt, P Clarke and B Coleman). The qualifications and experience of the Directors are provided in the Directors' Report on pages 23 and 24.

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

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

Director Independence

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

- is not a substantial Shareholder of the Company or an officer of or, otherwise associated directly with, a substantial Shareholder of the Company;
- has not, within the last three years been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment;
- has not within the last three years been a principal of a material professional advisor or material consultant to the Company, or an employee materially associated with the service provider;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

– has no material contractual relationship with the Company other than as a Director of the Company;
– has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
– is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

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

1.4 Chair of the Board and Managing Director (CEO)

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

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

The Charter specifies that these roles are separate and are to be undertaken by different people.

1.5 Recommendation 2.4 – Establishment of a Nomination Committee

Recommendation 2.4 of the Governance Principles provides that "the board should establish a nomination committee". Such a committee is mandated with reviewing, assessing and recommending changes to the company's process for evaluating, selecting and appointing directors. Given the size of the Company and the Board, the Board considers a nomination committee is not warranted. The entire Board undertakes the role. The Board considers the following when evaluating, selecting and appointing Directors:

– the candidate's competencies, qualifications and expertise and his/her fit with the current membership of the Board;
– the candidate's knowledge of the industry in which the Company operates;
– directorships previously held by the candidate and his/her current commitments to other boards and companies;
– existing and previous relationships with the Company and Directors;
– the candidate's independence status and the need for a majority balance on the Board; and

Corporate Governance Statement

continued

– requirements of the *Corporations Act 2001*, ASX Listing Rules, the Company's Constitution and Board Policy.

The Board seeks to ensure that:

– its membership represents an appropriate balance between Directors with investment management experience and Directors with an alternative perspective; and

– the size of the Board is conducive to effective discussion and efficient decision-making.

1.6 Director Term of Office

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

1.7 Independent Professional Advice

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

1.8 Performance Assessment

The Board undertakes an annual self assessment of its collective performance, as well as the performance of its committees. Independent professional advice may be sought as part of this process.

2. Board Committees

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

2.1 Audit Committee

The Audit Committee consists of three Non-Executive and "independent" Directors: P Clarke (Chair of the Committee), G Galt, and B Coleman. Each member of the Committee has the appropriate financial expertise and industry understanding to perform their role. B Coleman is a Chartered Accountant, and P Clarke and G Galt are finance professionals. A summary of the Directors' qualifications and attendance at Audit Committee meetings is provided in the Directors' Report on pages 23 to 25.

The Committee operates according to its Charter – a copy is available from the Company's website.

The Charter sets out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate.

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

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

All matters determined by the Committee are submitted to the full Board as recommendations for Board decisions. Minutes of a Committee meeting are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the Committee to the Board are addressed in the Charter.

2.2 Recommendation 9.2 – Establishment of a Remuneration Committee

Recommendation 9.2 of the Governance Principles provides that "the board should establish a remuneration committee". Such a Committee is mandated with reviewing and recommending remuneration, incentive and employment policies for executive directors, other senior executives and non-executive directors.

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

Remuneration Policies

Remuneration for the Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. The Executive Directors review and determine the remuneration of the Non-Executive Directors accordingly. Independent professional advice may be sought. Further information, including remuneration paid to Non-Executive Directors for the 2006/2007 reporting year, is set out on page 28 of the Remuneration Report.

Corporate Governance Statement

continued

3. External Auditors

The policy of the Board is to appoint external auditors who demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external Auditor to the Company in 1994. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years. An analysis of fees paid to the external Auditor, including a breakdown of fees for non-audit services, is provided in the Directors' Report. It is the policy of the external Auditor to provide an annual declaration of their independence to the Audit Committee. The external Auditor will attend the Company's AGM and be available to answer Shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

4. Company Policies

4.1 Directors' Code of Conduct

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

4.2 Trading in Company Securities

The purchase and sale of shares in the Company by Directors is only permitted during a period of five business days following the Company's release of its monthly net tangible assets figure (both to the ASX and in the *Australian Financial Review*). Additional blackout periods are enforced as necessary (e.g. during an on-market buy-back of shares on issue). Any and all changes to Director shareholdings are reported to the ASX. The Investment Manager, Platinum Asset Management, imposes the same rules on itself and its employees. A copy of the Share Trading Policy is available from the Company's website.

4.3 Financial Reporting

In respect of the year ended 30 June 2007, the Managing Director and Finance Director have made the following certifications to the Board:

– The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

– The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

4.4 Continuous Disclosure

The Board is committed to:

– the promotion of investor confidence by ensuring that trading in Company shares takes place in an efficient, competitive and informed market;

– complying with the Company's disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*; and

– ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

The Company Secretary is responsible for co-ordinating the disclosure of information to regulators and Company Shareholders, and ensuring that any notifications/reports to the ASX are promptly posted on the Company's website. A copy of the Continuous Disclosure Policy is available from the Company's website.

4.5 Shareholder Communication

The Board has adopted a Communications Plan which describes the Board's policy for ensuring Shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company. The Company's primary portals are its website, Annual Report, AGM, half-yearly financial report, and monthly notices to the ASX. The Company Secretary oversees and co-ordinates the distribution of all information by the Company to the ASX, Shareholders, the media and the public. A copy of the Communication Plan is available from the Company's website.

Corporate Governance Statement

continued

4.6 Risk Assessment and Management

The Board, through the Audit Committee, is responsible for ensuring there are adequate policies in relation to risk oversight and management and internal control systems. The Company's policies are designed to ensure operational, legal and financial risks are identified, assessed, addressed and monitored. A summary of the Company's and the Investment Manager's risk management practices is available from the Company's website.

4.7 Business Rules of Conduct

The appointed Investment Manager, Platinum Asset Management, has established Business Rules of Conduct (BROC) applicable to its Directors and staff. It communicates the appropriate standards of behaviour, provides a framework for the workplace, and informs staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes. Compliance is monitored by the Compliance team. Regular training sessions are provided by the Compliance Manager. All employees are asked to sign an annual declaration confirming their compliance with the BROC.

Income Statement

for the year ended 30 June 2007

	NOTES	2007 $'000	2006 $'000
Investment income			
Dividends		**2,842**	3,089
Interest		**560**	382
Net gains on equities/derivatives		**10,710**	50,433
Net gains/(losses) on forward currency contracts		**6,340**	(882)
Net gains/(losses) on overseas bank accounts		**(3,008)**	809
Total investment income		**17,444**	53,831
Expenses			
Management fee		**3,237**	3,161
Custody		**185**	219
Share registry		**264**	256
Directors' fees		**164**	167
Continuous reporting disclosure		**143**	112
Auditors' remuneration			
– Auditing and assurance services ($76,480, 2006: $82,601)		**76**	83
– Taxation services ($29,740, 2006: $31,249)		**30**	31
– Advisory services ($5,288, 2006: $2,942)		**5**	3
Transaction costs		**157**	217
Withholding tax on foreign dividends		**273**	292
Other expenses		**343**	401
Total expenses		**4,877**	4,942
Profit before income tax		**12,567**	48,889
Income tax expense	2(a)	**3,456**	14,425
Profit after income tax	8	**9,111**	34,464
Basic earnings per share (cents per share)	7	**7.42**	28.66
Diluted earnings per share (cents per share)	7	**7.42**	28.66

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

Balance Sheet

as at 30 June 2007

	NOTES	2007 $'000	2006 $'000
Assets			
Financial assets at fair value through profit or loss	1(c), 3	**192,405**	195,710
Cash and cash equivalents	9(a)	**21,148**	28,070
Receivables	4	**367**	417
Deferred tax assets	2(b)	**114**	76
Total assets		**214,034**	224,273
Liabilities			
Payables	5	**1,411**	814
Income tax payable		**1,141**	8,307
Deferred tax liabilities	2(c)	**7,565**	7,578
Total liabilities		**10,117**	16,699
Net assets		**203,917**	207,574
Equity			
Contributed equity	6	**143,275**	137,727
Retained profits	8	**60,642**	69,847
Total equity		**203,917**	207,574

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

Statement of Changes in Equity

for the year ended 30 June 2007

	NOTES	2007 $'000	2006 $'000
Total equity at the beginning of the financial year		**207,574**	185,550
Profit for the year		**9,111**	34,464
Total recognised income and expense for the financial year		**9,111**	34,464
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transactions costs		**5,548**	5,474
Dividends paid	14	**(18,316)**	(17,914)
		(12,768)	(12,440)
Total equity at the end of the financial year		**203,917**	207,574

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

Cash Flow Statement

for the year ended 30 June 2007

	NOTES	2007 $'000 INFLOWS (OUTFLOWS)	2006 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Dividends received		**2,768**	3,112
Interest received		**549**	368
Cost of purchases of financial assets		**(129,584)**	(120,528)
Proceeds from sale of financial assets		**150,335**	149,004
Management fees paid		**(3,244)**	(3,126)
Other expenses		**(1,657)**	(1,761)
Income tax paid		**(10,674)**	(3,024)
Net cash from operating activities	9(b)	**8,493**	24,045
Cash flows from financing activities			
Proceeds from issue of shares		**5,548**	5,474
Dividends paid		**(18,342)**	(17,953)
Net cash from financing activities		**(12,794)**	(12,479)
Net increase/(decrease) in cash and cash equivalents		**(4,301)**	11,566
Cash and cash equivalents held at the beginning of the financial year		**28,070**	15,671
Effects of exchange rate changes on cash and cash equivalents		**(2,621)**	833
Cash and cash equivalents held at the end of the financial year	9(a)	**21,148**	28,070

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

Notes to the Financial Statements

30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(a) Basis of Preparation

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

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

Compliance with IFRS

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

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

(b) Income Tax

The income tax expense or revenue 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.

Notes to the Financial Statements

30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

(d) Transaction Costs

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

(e) Foreign Currency Translation

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

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

(f) Investment Income

Interest income

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

Dividend income

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

(g) Directors' Entitlements

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

(h) Earnings per Share

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

(i) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes deposits at call and cash at bank, which are readily convertible to cash on hand. Cash at the end of the financial year, as shown in the Cash Flow Statement, is reconciled to the related item in the Balance Sheet.

(j) Receivables

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

(k) Payables

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

(l) Contributed Equity

Ordinary shares are classified as equity.

(m) Dividends

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

(n) Rounding of Amounts

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

(o) Goods and Services Tax (GST)

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

Notes to the Financial Statements

30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(p) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 30 June 2007 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 7: *Financial Instruments: Disclosures* and AASB 2005-10: *Amendments to Australian Accounting Standards* (AASB 132, AASB 101, AASB 114, AASB 133, AASB 139 and AASB 1)
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. AASB 7 requires qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The Company has not adopted the standard early. Application of this standard will not affect any of the amounts recognised in the financial statements.

(ii) AASB 101: *Presentation of Financial Statements*

The impacts of the revised AASB 101 are to eliminate much of the Australian specific content, including the Australian illustrative formats of the Income Statement, Balance Sheet and Statement of Changes in Equity which entities were previously "encouraged" to adopt when preparing their financial statements.

(iii) AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards* (AASB 107 and AASB 134)
AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 requires the adoption of a "management approach" to disclosing information about its reporting segments. Generally, the financial information will be reported on the same basis as was used internally by the chief decision-maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. The amendment should not affect the Company's financial statements.

(iv) AASB 2007-4: *Amendments to Australian Accounting Standards* arising from ED 151 and Other Amendments (AASB 1, AASB 7, AASB 114, AASB 118, AASB 121, AASB 132 and AASB 134)
AASB 2007-4 was introduced to allow accounting policy choices under AIFRS that were not previously incorporated by the AASB, and to remove many Australian specific disclosures. This amendment is not expected to have an impact on the Company.

2. INCOME TAX

	2007 $'000	2006 $'000
(a) The income tax expense attributable to profit comprises:		
Current income tax provision	**3,542**	9,603
Deferred tax liabilities	**(13)**	4,821
Deferred tax assets	**(38)**	(8)
Under/(over) provision of prior period tax	**(35)**	9
	3,456	14,425
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit. The difference is reconciled as follows:		
Profit before income tax expense	**12,567**	48,889
Prima facie income tax on profit at 30%	**3,770**	14,667
Tax effect on temporary differences which:		
Reduce tax payable		
Allowable credits	**(279)**	(251)
Under/(over) provision of previous period tax	**(35)**	9
Income tax expense	**3,456**	14,425
(b) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Auditing and review	**8**	15
Taxation services	**6**	6
Preparation of annual report	**68**	55
Accounting/tax cost on investments	**32**	–
Deferred tax assets	**114**	76

Notes to the Financial Statements

30 June 2007

	2007 $'000	2006 $'000
2. INCOME TAX continued		
(c) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Dividends receivable	**33**	24
Accounting/tax cost on investments	**–**	(56)
Unrealised gains on financial assets	**7,532**	7,610
Deferred tax liabilities	**7,565**	7,578

	2007 $'000 FAIR VALUE	2006 $'000 FAIR VALUE
3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed and non-listed securities	**190,937**	197,175
Derivatives	**502**	(2,162)
Foreign currency contracts	**966**	697
Total financial assets at fair value through profit or loss	**192,405**	195,710

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

	2007 $'000	2006 $'000
4. RECEIVABLES		
Proceeds on sale of financial assets	**1**	44
Dividend receivable	**107**	81
Interest receivable	**46**	36
Prepayments	**87**	67
Sundry debtors	**56**	155
Goods and Services Tax	**70**	34
	367	417

Proceeds on sale of financial assets are usually received between two and five days after trade date. Interest is usually received within three days of becoming due and receivable and dividends are usually received within approximately 30 days of the ex-dividend date.

5. PAYABLES		
Payables on purchase of financial assets	**638**	46
Trade creditors (unsecured)	**611**	580
Unclaimed dividends payable to Shareholders	**162**	188
	1,411	814

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.

Notes to the Financial Statements

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		2007 QUANTITY	2007 $'000	2006 QUANTITY	2006 $'000
6. CONTRIBUTED EQUITY					
Opening balance		**121,599,656**	**137,727**	118,828,743	132,253
Dividend Reinvestment Plan	18 Nov 05	**–**	**–**	1,816,411	3,542
Dividend Reinvestment Plan	27 Feb 06	**–**	**–**	936,860	1,893
Reinvestment of unclaimed dividends	22 May 06	**–**	**–**	17,642	39
Reinvestment of unclaimed dividends	31 Aug 06	**7,635**	**18**	–	–
Dividend Reinvestment Plan	17 Nov 06	**1,519,329**	**3,616**	–	–
Dividend Reinvestment Plan	1 Mar 07	**861,444**	**1,878**	–	–
Reinvestment of unclaimed dividends	23 May 07	**16,519**	**36**	–	–
Closing balance		**124,004,583**	**143,275**	121,599,656	137,727

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

Ordinary Shares

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

	2007	2006
7. EARNINGS PER SHARE		
Basic earnings per share – cents per share	**7.42**	28.66
Diluted earnings per share – cents per share	**7.42**	28.66
Weighted average number of Ordinary Shares on issue used in the calculation of basic and diluted earnings per share	**122,836,450**	120,268,658

	2007 $'000	2006 $'000
Earnings used in the calculation of basic and diluted earnings per share	**9,111**	34,464

There have been no conversions to, calls of, or subscriptions for Ordinary Shares other than those issued under the Dividend Reinvestment Plan, or issues of potential Ordinary Shares during the financial year. As there are no potential Ordinary Shares, diluted earnings per share equals basic earnings per share.

	NOTES	2007 $'000	2006 $'000
8. RETAINED PROFITS			
Retained earnings at the beginning of the financial year		**69,847**	53,297
Net profit		**9,111**	34,464
Dividends provided for or paid	14	**(18,316)**	(17,914)
Retained earnings at the end of the financial year		**60,642**	69,847

Notes to the Financial Statements

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9. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash

	2007 $'000	2006 $'000
Cash at bank*	**172**	243
Cash on deposit**	**20,976**	27,827
	21,148	28,070

* Includes $157,000 (2006: $188,000) held in respect of unclaimed dividends on behalf of Shareholders.

** Includes $9,457,000 (2006: $8,026,000) 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 0.05% to 0.85% (2006: 0.05% to 0.85%).

9. NOTES TO THE CASH FLOW STATEMENT continued

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

	2007 $'000	2006 $'000
Profit after income tax	**9,111**	34,464
Decrease/(increase) in investment securities and forward currency contracts	**3,305**	(21,332)
(Increase)/decrease in cash due to exchange rate movements	**2,621**	(833)
Decrease/(increase) in settlements receivable	**43**	275
Decrease/(increase) in dividends receivable	**(26)**	22
Decrease/(increase) in interest receivable	**(10)**	(14)
Decrease/(increase) in Goods and Services Tax receivable	**(36)**	2
Decrease/(increase) in sundry debtors	**99**	(12)
Decrease/(increase) in prepayments	**(20)**	1
(Decrease)/increase in accrued expenses	**31**	54
(Decrease)/increase in settlements payable	**592**	20
(Decrease)/increase in income tax payable	**(7,166)**	6,585
(Increase)/decrease in deferred tax assets	**(38)**	(8)
Increase/(decrease) in deferred tax liabilities	**(13)**	4,821
Net cash from operating activities	**8,493**	24,045

Notes to the Financial Statements

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	2007 $'000	2006 $'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	**203,917**	207,574
Add:		
Difference between bid price under AIFRS and last sale price	**(267)**	801
Adjustment to receivables	**–**	(17)
Deferred income tax on movements on AIFRS and last sale price	**80**	(240)
Net Asset Value	**203,730**	208,118
Net Asset Value – cents per share	**164.29**	171.15

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

	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO		
Japan		
Aeon	125,000	**2,730**
Ajinomoto	203,400	**2,759**
Alpine Electronics	53,200	**961**
Bank of Nagoya	800	**6**
Chiba Bank	148,800	**1,552**
Chiyoda	16,000	**359**
Chugoku Bank	62,900	**1,028**
Denso	82,430	**3,798**
Fukuoka Financial Group	114,100	**886**
Hamamatsu Photonics	14,200	**524**
JGC Corp	104,400	**2,300**
JS Group	42,100	**1,006**

	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
Japan continued		
Kajima	128,400	**633**
McDonald's Holdings Co Japan	36,000	**690**
Mitsubishi Heavy Industries	30,463	**230**
Nagano Bank	2,100	**8**
Nitto Denko	16,800	**992**
Nomura Securities	68,300	**1,567**
Obayashi	364,000	**2,338**
Rohm Co	23,080	**2,416**
Sega Sammy Holdings	39,300	**748**
Sekisui House	60,600	**953**
Sharp	67,100	**1,501**
Shimizu	115,900	**792**
Shizuoka Bank	75,100	**895**
SMC	6,985	**1,092**
Sony	68,090	**4,120**
Sumitomo Chemical	131,900	**1,043**
Sumitomo Mitsui	227	**2,495**
Toyota Industries	56,100	**3,073**
Ulvac	14,300	**604**
Ushio Denki	74,300	**1,942**
West Japan Railway	231	**1,267**
Yamanashi Chuo Bank	99,600	**752**
Yamato Holdings	117,000	**1,947**
Yokogawa Electric	102,900	**1,625**
Total Japan		**51,632**

Notes to the Financial Statements

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	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
Other Asia		
Hong Kong		
Henderson Land Development	253,800	**2,035**
Hutchison Whampoa	429,400	**5,022**
		7,057
India		
S&P CNX Jul 07 Future – Sold Short	(206)	**(28)**
NTPC	275,870	**1,216**
Reliance Energy	114,556	**2,034**
		3,222
Korea		
Kangwon Land	46,053	**1,256**
Kookmin Bank	14,620	**1,512**
Korea Investment Holdings	14,069	**1,130**
Kospi Sept 07 Future – Sold Short	(26)	**71**
Lotte Shopping	737	**338**
Samsung Corporation	22,486	**1,296**
Samsung Electronics	3,408	**2,463**
Samsung Fire & Marine Insurance	7,364	**1,671**
SK Telecom	7,832	**2,112**
		11,849

	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
Other Asia continued		
China		
Bank of China – H	3,536,600	**2,067**
China Telecom – H	3,034,200	**2,088**
CNOOC	714,400	**952**
Denway Motors	1,907,600	**1,069**
Dongfeng Motor Group – H	776,200	**486**
GOME Electrical Appliances Holdings	158,016	**284**
		6,946
Taiwan		
Fuhwa Financial Holdings	640,131	**428**
Fuhwa Financial Holdings P – Note	1,099,009	**735**
MSCI Taiwan Index Jul 07 – Sold Short	(23)	**(4)**
Polaris Securities	2,513,589	**1,532**
		2,691
Singapore		
Singapore Airlines	173,800	**2,500**
		2,500
Thailand		
Bangkok Bank NVDR	596,300	**2,379**
		2,379
Total Other Asia		**36,644**

Notes to the Financial Statements

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11. INVESTMENT PORTFOLIO continued

	QUANTITY	2007 FAIR VALUE $'000
Australia		
SPI 200 Sept 07 Future – Sold Short	(40)	**48**
Total Australia		**48**
Europe – Euro		
France		
Areva	1,420	**1,791**
Credit Agricole	96,230	**4,629**
Pernod Ricard	12,924	**3,379**
Publicis Groupe	46,200	**2,405**
		12,204
Germany		
Adidas	15,800	**1,178**
DAX Index Future Sept 07 – Sold Short	(18)	**(183)**
Henkel KGAA – Vorzug	60,591	**3,764**
Hornbach Baumarkt	45,600	**4,335**
Hornbach Holdings	11,860	**1,872**
MLP	31,163	**701**
Qiagen	36,268	**758**
Siemens	34,250	**5,820**
		18,245
Netherlands		
Royal Dutch Shell	90,714	**4,366**
		4,366

	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
Europe – Euro continued		
Finland		
Stora Enso Oyj	97,297	**2,167**
		2,167
Total Europe – Euro		**36,982**
Europe – Other		
Sweden		
Ericsson – B	1,167,500	**5,524**
		5,524
Switzerland		
Lindt & Spruengli – Registered	20	**698**
		698
United Kingdom		
Johnson Matthey	30,078	**1,202**
		1,202
Total Europe – Other		**7,424**
North America		
Canada		
Bombardier	862,900	**6,075**
Domtar	186,500	**2,437**
Fairfax Financial Holdings – Sold Short	(2,100)	**4**
		8,516

Notes to the Financial Statements

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11. INVESTMENT PORTFOLIO continued

North America continued

	QUANTITY	2007 FAIR VALUE $'000
United States		
Affymetrix	28,600	**838**
Applied Materials	9,000	**210**
Ariad Pharmaceuticals	52,082	**335**
Barrick Gold	56,800	**1,943**
Caliper Life Sciences	63,114	**347**
Cephalon	5,600	**530**
Cisco Systems	172,000	**5,632**
Far East Energy	285,700	**468**
General Growth Properties – Sold Short	(32,800)	**79**
Incyte	150,987	**1,067**
International Paper	118,966	**5,471**
Invitrogen	7,400	**642**
Ishares Real Estate ETF – Sold Short	(88,200)	**549**
Ishares S&P 600 Cap – Sold Short	(177,122)	**(69)**
Johnson & Johnson	15,000	**1,088**
KBR	44,126	**1,362**
Liberty Media Interactive	47,663	**1,252**
Mercer International	95,200	**1,142**
Microsoft	172,800	**5,992**
Mosaic	150,033	**6,879**
Myriad Genetics	26,600	**1,164**
Newmont Mining	37,050	**1,702**
News Corp – CDI	105,279	**2,858**
Nordstrom – Sold Short	(19,000)	**43**

	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
North America continued		
United States continued		
Oracle	68,000	**1,577**
Pfizer	86,700	**2,606**
Precision Castparts – Sold Short	(16,400)	**(126)**
Research In Motion – Sold Short	(1,000)	**(56)**
Russell Mini Sept 07 Future – Sold Short	(134)	**25**
Smurfit-Stone Container	66,700	**1,045**
Stryker – Sold Short	(27,000)	**148**
Tyson Foods	9,700	**263**
VEECO Instruments	21,736	**530**
Verenium	31,441	**188**
XOMA	137,330	**493**
Zymogenetics	27,800	**478**
		48,695
Total North America		**57,211**
South America		
Peru		
Bayer Peru – Trabajo	77,287	**112**
Peru Holding De Turismo – Trabajo	1,667,523	**121**
Total South America		**233**
South Africa		
Anglogold Ashanti – ADR	28,470	**1,265**
Total South Africa		**1,265**

Notes to the Financial Statements

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	QUANTITY	2007 FAIR VALUE $'000
11. INVESTMENT PORTFOLIO continued		
Liquids		
Outstanding settlements		**(530)**
Forward currency contracts		**966**
Cash on deposit		**20,976**
Total Liquids		**21,412**
Total Investment Portfolio (Notes 12(a) and 12(b))		**212,851**
Accounted for in payables (payables on purchase of investments)		**638**
Accounted for in receivables (proceeds on sale of investments)		**(1)**
Accounted for in receivables (dividends receivable)		**(107)**
Accounted for in Financial Assets (Note 3) and Cash on Deposit (Note 9(a))		**213,381**

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

Number of transactions – 2,215 Total brokerage paid – $343,978

12. RISK MANAGEMENT

It is the Company's investment objective to seek long-term capital growth through investing in undervalued securities across the world. The Investment Manager may also invest in fixed interest investments, although this is not the primary investment objective. The Company's investments are subject to price (which includes currency, interest rate and market risk), credit and liquidity risks.

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

(i) the underlying value of derivative contracts exceeds 100% of the Portfolio Value. Where options are employed, the underlying value will be the delta adjusted exposure.

(ii) the underlying value of long stocks and derivative contracts exceeds 150% of the Portfolio Value. Where options are employed, the underlying value will be the delta adjusted exposure.

12. RISK MANAGEMENT continued

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

The international investment activities of the Company expose it to currency risk – the possibility of losing money owing to changes in forward currency contract exchange rates – and manages this risk through the use of forward currency contracts and options on forward contracts to mitigate changes in currency rates. Contracts open at balance date are accounted for as foreign currency monetary assets and liabilities – refer Note 1(e).

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

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

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

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

Refer to Note 1 for the accounting policies adopted with respect to derivatives and currencies.

Notes to the Financial Statements

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12. RISK MANAGEMENT continued

(a) Investments at Fair Value and Derivatives Exposure

	PHYSICAL 2007 $'000	NET EXPOSURE 2007 $'000	PHYSICAL 2006 $'000	NET EXPOSURE 2006 $'000
Japan	**51,632**	**51,632**	57,640	34,289
Other Asia	**36,644**	**30,710**	26,099	18,072
Australia	**48**	**(6,278)**	32	(3,017)
Europe – Euro	**36,982**	**31,369**	45,946	42,729
Europe – Other	**7,424**	**7,424**	12,717	12,717
North America	**57,211**	**12,246**	50,563	(8,971)
South America	**233**	**233**	172	172
South Africa	**1,265**	**1,265**	1,844	1,844
	191,439	**128,601**	195,013	97,835
Cash and accruals	**21,412**	**84,250**	28,603	125,781
Total	**212,851**	**212,851**	223,616	223,616

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

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

12. RISK MANAGEMENT continued

The Company uses derivatives contracts in liquid markets and generally utilises short dated contracts; those with 90-day maturities. The existing derivative positions are held with high credit rating counterparties with maturity dates ranging from 77 days to 80 days. Initial margin requirements and daily variation margin requirements on derivatives contracts are met in cash. Derivative contracts have little credit risk as they are traded on recognised exchanges. Over the Counter equity swaps are also entered into by the Company with high credit rating counterparties with maturity dates of no more than 90 days. Initial margin requirements and daily variation margin requirements are met in cash.

The Company uses Exchange Traded and Over The Counter Options, where the maximum potential loss is paid up-front by way of a premium. There is little credit risk attached to these instruments, as they are traded on recognised exchanges or with high credit rating counterparties.

(b) Currency Exposure at Fair Value

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

Notes to the Financial Statements

30 June 2007

12. RISK MANAGEMENT continued

(b) Currency Exposure at Fair Value continued

2006	PHYSICAL 2006 $'000	BOUGHT 2006 $'000	SOLD 2006 $'000	NET EXPOSURE 2006 $'000
Japan	62,011	8,361	–	70,372
Other Asia	27,197	–	–	27,197
Australia	2,142	67,857	(1,700)	68,299
Europe – Euro	50,808	–	(14,007)	36,801
Europe – Other	12,875	–	(1,874)	11,001
North America	66,567	1,772	(60,409)	7,930
South America	172	–	–	172
South Africa	1,844	–	–	1,844
Total	223,616	77,990	(77,990)	223,616

The above table categorises the investments in the Portfolio into the geographic region of their operations.

Forward foreign currency contracts and options on forward currency contracts are adjusted against the "physical" column to arrive at a net exposure to each currency grouping. The Company generally utilises short dated (90-day maturities) currency agreements with high credit rated counterparties. The existing forward currency contract positions' maturity dates range from 15 days to 75 days.

(c) Interest Rate Exposure

The Company had no fixed interest investments or derivatives thereon at balance date. Refer to Note 9(a) for information on short-term interest rates.

	2007 $'000	2006 $'000
13. FRANKING ACCOUNT		
Opening balance based on tax paid and franking credits attached to dividends paid – converted at 30%	**27,377**	25,281
On tax paid and payable:		
2005/2006	**–**	9,767
2006/2007	**3,378**	–
Prior year tax provision – franking adjustment	**(35)**	7
Dividend paid – franked at 30%	**(7,850)**	(7,678)
	22,870	27,377

	2007 CPS	2007 $'000	2006 CPS	2006 $'000
14. DIVIDENDS (FULLY FRANKED)				
Paid – Interim fully franked at 30%	**5.00**	**6,156**	5.00	6,032
Paid – Final fully franked at 30%	**10.00**	**12,160**	10.00	11,882
	15.00	**18,316**	15.00	17,914

	2007 $'000	2006 $'000
Dividends not recognised at year-end		
In addition to the above dividends, since year-end the Directors have recommended the payment of a final dividend of 10 cents per fully paid Ordinary Share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 14 November 2007 but not recognised as a liability at year-end.		
	12,400	12,160

Notes to the Financial Statements

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15. INVESTMENT MANAGER

The Investment Manager is Platinum Investment Management Limited (it changed its name from Platinum Asset Management Limited on 20 February 2007). It receives a monthly Management fee for investment services provided in accordance with the Investment Management Agreement. This Agreement provides for a Management fee payable monthly and calculated at 1.5% per annum of the Portfolio Value (which includes cash and deposits).

Effective 31 December 2006, tax on unrealised gains has been removed from the calculation.

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

The pre-tax performance of the Portfolio for the year to June 2007 was positive 5.16% and the corresponding MSCI's positive 9.67%. This represents an underperformance of 4.51% against the MSCI. Accordingly a Performance fee is not payable.

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

	2007 $'000	2006 $'000
Management fee	**3,237**	3,161
Performance fee	**–**	–
Amounts paid and payable to the Investment Manager for the year	**3,237**	3,161

15. INVESTMENT MANAGER continued

(a) The Company and the Investment Manager entered into a new Investment Management Agreement on 14 December 2006 ("**Agreement**"). The terms of the Agreement require the Investment Manager to:

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

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

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

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

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

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

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

(ii) goes into liquidation;

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

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

(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.

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

Notes to the Financial Statements

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16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS FOR EXPENDITURE

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

17. SEGMENT INFORMATION

The Company operates solely in Australia. While the Company only operates in Australia (the geographical segment), it has investment exposures in different countries. The geographical locations of those exposures are outlined below.

	2007 $'000 SEGMENT REVENUE	**2007 $'000 SEGMENT RESULT**	2006 $'000 SEGMENT REVENUE	2006 $'000 SEGMENT RESULT
Japan	**(4,956)**	**(5,021)**	19,701	19,560
Other Asia	**3,864**	**3,737**	13,790	13,698
Australia	**(1,318)**	**(1,318)**	(544)	(544)
Europe – Euro	**7,425**	**7,317**	13,731	13,621
Europe – Other	**1,171**	**1,153**	1,078	1,032
North America	**5,476**	**5,361**	5,974	5,853
South America	**–**	**–**	–	–
South Africa	**(558)**	**(558)**	983	982
Unallocated Revenue – Net gains/(losses) on forward currency contracts	**6,340**	**6,340**	(882)	(882)
Unallocated Expenses	**–**	**(4,444)**	–	(4,431)
Total	**17,444**	**12,567**	53,831	48,889

17. SEGMENT INFORMATION continued

	2007 $'000 SEGMENT ASSETS	2007 $'000 SEGMENT LIABILITIES	2006 $'000 SEGMENT ASSETS	2006 $'000 SEGMENT LIABILITIES
Japan	**55,118**	**–**	70,419	(46)
Other Asia	**38,499**	**(343)**	27,352	–
Australia	**51,816**	**(9,464)**	68,719	(16,653)
Europe – Euro	**31,511**	**–**	36,804	–
Europe – Other	**7,441**	**–**	11,001	–
North America	**28,151**	**(310)**	7,962	–
South America	**233**	**–**	172	–
South Africa	**1,265**	**–**	1,844	–
Total	**214,034**	**(10,117)**	224,273	(16,699)

18. EVENTS OCCURRING AFTER REPORTING DATE

No significant events have occurred since balance date which would impact the Balance Sheet of the Company as at 30 June 2007 and the results for the year ended on that date.

19. RELATED PARTY INFORMATION

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

20. THE COMPANY

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

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

Directors' Declaration

In the Directors' opinion,

(a) the financial statements and notes set out on pages 39 to 71 are in accordance with the *Corporations Act 2001* including:

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

(ii) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 25 to 28 of the Directors' Report comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

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

Graeme Galt
DIRECTOR

Kerr Neilson
DIRECTOR

Sydney, 8 August 2007

Independent audit report to the members

of Platinum Capital Limited

PriceWaterhouseCoopers
ABN 52 780 433 757

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Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Platinum Capital Limited (the Company) for the period ended 30 June 2007 included on Platinum's website. The Directors of Platinum Investment Management Limited, the Manager, are responsible for the integrity of the website. We have not been engaged to report on the integrity of this website. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the website.

Report on the financial report and AASB 124 Remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Platinum Capital Limited, which comprises the Balance Sheet as at 30 June 2007, the Income Statement, Statement of Changes in Equity, Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for Platinum Capital Limited (the Company).

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of Directors and Executives ("remuneration disclosures"), required by AASB 124: *Related Party Disclosures*, under the heading "Remuneration Report" on pages 25 to 28 of the Directors' Report, and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures are contained in the Directors' Report.

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

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

The Directors of the Company are also responsible for the remuneration disclosures contained in the Directors' Report.

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. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including assessments, of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' Report.

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

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

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

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

Independence

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

Auditor's Opinion on the financial report

In our opinion, the financial report of Platinum Capital Limited is in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the Directors' Report.

In our opinion the remuneration disclosures that are contained in pages 25 to 28 of the Directors' Report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

A J Loveridge

AJ Loveridge
PARTNER

Sydney, 8 August 2007