Platinum®
CAPITAL LIMITED

ANNUAL REPORT 2012

PLATINUM CAPITAL LIMITED ABN 51 063 975 431

Directors

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

Company Secretary

Philip Howard

Investment Manager

Platinum Investment Management Limited

Shareholder Liaison

Liz Norman

Registered Office

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

Share Registrar

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

Auditor and Taxation Advisor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

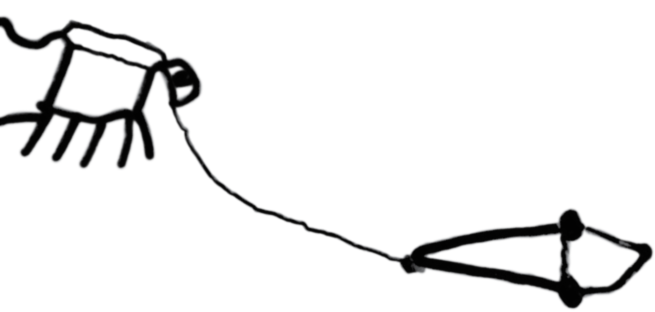
Securities Exchange Listing

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

Website

http://www.platinumcapital.com.au

CONTENTS



CHAIRMAN'S REPORT

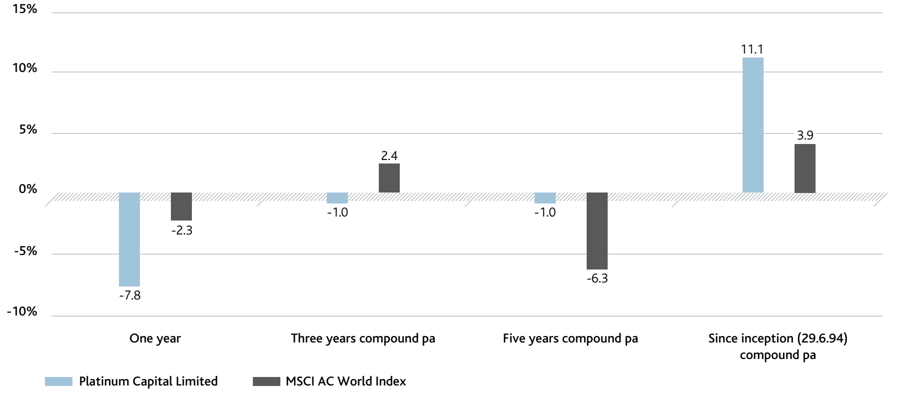
Investment Performance

International economies have experienced another difficult year and Platinum Capital has not been immune to this macro-economic environment. The benchmark Morgan Stanley Capital International (MSCI) World Index decreased by 2.3% for the year ended 30 June 2012. In comparison, the Company's net asset value decreased by a disappointing 7.8% pre-tax and by 7.7% after allowing for all tax liabilities, both realised and unrealised.

However, taking the longer-term view, our returns and performance have been much more satisfactory. Since its inception in 1994, the compound annual appreciation of the Company's net assets on a pre-tax basis has been 11.1% compared to the return from the MSCI World Index of 3.9%. The comparable return from the Australian All Ordinaries Accumulation Index has been 8.4% annually over the same 18 years.

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

PLATINUM CAPITAL LIMITED – PRE-TAX NET ASSET VALUE RETURN VERSUS MSCI* INDEX TO 30 JUNE 2012



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

Financial Results & Accounting Standards

For the year ended 30 June 2012, the Company made a pre-tax operating loss of negative $15.3 million and a post-tax operating loss of negative $17.5 million. This was directly attributable to the slowdown in global share markets and the impact of this on the Company's investment portfolio.

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

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

Dividends

As mentioned above, for the year ended 30 June 2012, the Company recorded a pre- and post-tax operating loss and this loss was directly related to the fall in value of its investment portfolio. Consequently, as previously reported to the ASX, the Company has been unable to pay an interim or final dividend for the year ended 30 June 2012.

Remuneration Matters

At last year's Annual General Meeting (AGM), only 5.7% of total shares on issue voted on the Remuneration Report resolution. Of this small subset of shareholders that voted, greater than 25% of the votes recorded were against the Remuneration Report resolution. This gave the Company its "first strike" and means that the Board could be spilled if there is a "second strike" at this year's AGM.

Whilst the Board will always accept your decision as shareholders, we do not want the implementation of important decisions based on a small number of votes. Accordingly, I take this opportunity to encourage all shareholders to read the 2012 Remuneration Report contained in the attached Financial Report. Platinum Capital remunerates its Investment Manager under an agreement previously approved by shareholders. As a consequence, the Remuneration Report applies to only three employees remunerated by the Company (i.e. the Non-Executive Directors). Total remuneration paid to each of these Non-Executive Directors ranges from $54,500 to $59,950 per year. The Company paid no bonuses to any Director or employee.

CHAIRMAN'S REPORT
CONTINUED

As a result of the "first strike", the Company has reviewed the remuneration paid to its Non-Executive Directors. Further, there has been no increase in remuneration paid to the Company's Non-Executive Directors since 2003.

Whilst, we regret that no dividend has been paid for the year ended 30 June 2012, we remind shareholders that since inception, the Company has returned 11.1% pre-tax on a compound per annum basis as compared to the return from the MSCI World Index of 3.9% per annum.

Capital Management Programme

Shareholders passed a non-binding resolution on capital management at the AGM of 2010. The resolution recommended implementing a capital management proposal seeking to limit the difference between the Company's share price and its net asset value to a range of -10% (discount) and +15% (premium).

On 19 March 2012, the Company announced a share buy-back programme approved by shareholders. The buy-back programme started on 2 April 2012, with all shares being acquired through the Australian Securities Exchange. At 9 August 2012, 160,432 shares had been bought-back.

The share buy-back programme has been successful in limiting the discount to around 10%.

Corporate Governance

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

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

Outlook for 2012-2013

Global economies are likely to be challenging again in 2012-13, but opportunities will be there for patient investors.

On one hand, most developed countries, particularly in Europe, are burdened with too much debt, while developing nations face challenges of transitioning from export-driven to internal demand-driven economies. After experiencing a long period of upward revisions to earnings, investors will probably experience a period of under-achievement in terms of company's earnings reports.

Conversely, there is cause for optimism in some areas. The market has already built-in a degree of caution in the valuations of companies that face cyclical headwinds. Company balance sheets are generally very strong, unemployment is falling in the world's largest economy, the US, and China continues to grow, albeit at slower than its previous stellar rates.

To quote our Investment Manager, "Our challenge is to manage the portfolio through this uncertain time without allowing fear to drive us to myopic behaviour which would discourage us from owning sound companies which have already been priced for a poor short-term outcome."

Finally

Whilst we have not achieved the results we were hoping for in 2011-12, it was not through the lack of effort, so I wish to express my appreciation of the contribution made by all the people at Platinum over the last year.

Bruce Phillips
Chairman
Sydney, 9 August 2012

FINANCIAL STATEMENTS 2012

PLATINUM CAPITAL LIMITED

SHAREHOLDER INFORMATION

Substantial Shareholders

The following shareholder notified the Company that they have a substantial relevant interest in ordinary shares of Platinum Capital Limited as at 6 August 2012:

	NUMBER OF SHARES	%
Select Asset Management Limited	9,005,120	5.44

Distribution of Securities

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	920
1,001 – 5,000	2,442
5,001 – 10,000	2,131
10,001 – 100,000	3,694
100,001 and over	129
Total number of holders	9,316
(ii) Number of holders of less than a marketable parcel	643
(iii) Percentage held by the 20 largest holders	16.56%

Twenty Largest Shareholders

The names of the twenty largest holders of each class of listed equity securities as at 6 August 2012 are listed below:

	NUMBER OF SHARES	%
Cogent Nominees Pty Limited	8,582,269	5.18
Citicorp Nominees Pty Limited	2,737,153	1.65
Bond Street Custodians Limited	1,733,764	1.05
Forsyth Barr Custodians Limited	1,720,180	1.04
K Neilson	1,648,038	0.99
Moya Pty Limited	1,412,005	0.85
UBS Wealth Management Australia Nominees Pty Limited	1,150,559	0.69
Cogent Nominees Pty Limited	1,121,505	0.68
Navigator Australia Limited	1,076,346	0.65
R Ware	893,162	0.54
Questor Financial Services Limited	871,034	0.53
R Thompson	743,147	0.45
Nulis Nominees (Australia) Limited	608,356	0.37
Feboco Investments Pty Limited	553,446	0.33
I T Heffernan Pty Limited	525,000	0.32
HSBC Custody Nominees (Australia) Limited	474,002	0.29
M Hickling & J Hickling	435,424	0.26
R Ireson	391,617	0.24
RBC Dexia Investor Services Australia Nominees Pty Limited	384,224	0.23
Invia Custodian Pty Limited	370,000	0.22

SHAREHOLDER INFORMATION
CONTINUED

Voting Rights

Ordinary Shares

On a show of hands, every member present in person or represented by a proxy or representative shall have one vote and, on a poll, every member present in person or represented by a proxy or representative shall have one vote for every share held by them.

Company's Commitment to Carbon Neutrality

The Company continues to report that it is carbon neutral (as is the Investment Manager). The Manager has purchased carbon credits to offset the Company's carbon emissions.

Distribution of Annual Report to Shareholders

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

Financial Calendar

Annual General Meeting	22 October 2012

This date is indicative and may be changed.

Questions at AGM

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

INVESTMENT METHODOLOGY

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

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

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

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

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

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

For a more detailed look at Platinum Asset Management's investment process, we would encourage you to visit Platinum's website at the following links:
www.platinum.com.au/invest_process.htm
www.platinum.com.au/invest_diagram.htm

DIRECTORS' REPORT

In respect of the year ended 30 June 2012, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

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

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

Principal Activity

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

Trading Results

The net loss of the Company for the year was $17,546,000 (2011: net loss of $8,773,000) after income tax expense of $2,282,000 (2011: income tax benefit of $4,344,000).

Dividends

On 12 July 2012, the Directors declared a nil final dividend, which meant that no dividend was paid for the year ended 30 June 2012. This was a result of the fact that retained profits were negative $17,419,000 or negative 10.5 cents per share at 30 June 2012.

A fully franked final dividend of 1.9 cents per share ($3,134,000) for the year ended 30 June 2011 was paid on 1 September 2011.

Capital Management

On 19 March 2012, the Company announced a share buy-back programme approved by shareholders. The buy-back programme started on 2 April 2012, with all shares being acquired through the Australian Securities Exchange. At 9 August 2012, 160,432 shares had been bought-back.

Review of Operations

The net loss before tax was $15,264,000 (2011: net loss before tax of $13,117,000) and net loss after tax of $17,546,000 (2011: net loss after tax of $8,773,000). Income tax expense for the year was $2,282,000 (2011: income tax benefit of $4,344,000). The non-recognition of a large portion of investment losses as a deferred tax asset is the main reason for the existence of a non-cash accounting income tax expense in 2012. Refer to Note 2(b) of the Notes to the Financial Statements for further details.

Changes in the State of Affairs

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

Events Subsequent to the End of the Financial Year

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

Likely Developments and Expected Results of Operations

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

Rounding of Amounts

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

Environmental Regulation

The Company is not adversely impacted by any particular or significant environmental regulations under a Commonwealth, State or Territory Law.

DIRECTORS' REPORT
CONTINUED

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

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

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

	2012 $	2011 $
Audit services – statutory	**94,300**	91,156
Taxation services – compliance	**41,440**	36,208
Taxation services – foreign tax agent	**3,237**	3,284
Total	**138,977**	130,648

Auditor's Independence Declaration
A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Information on Directors
Bruce Phillips BSC (HONS)
Chairman since 23 October 2009 and Independent Non-Executive Director since March 2009 and member of the Audit and Risk Committee. (Age 57)

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

Bruce Coleman BSC, BCOM, CA, FFIN
Independent Non-Executive Director since April 2004 and member of the Audit and Risk Committee. (Age 62)

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

Richard Morath BA, FIAA, ASIA
Independent Non-Executive Director since March 2009 and Chairman of the Audit and Risk Committee. (Age 63)

Mr Morath has over 37 years' experience in the funds management and banking industry. He currently holds several board positions with organisations that operate under the National Australia Group of companies. He is Chairman of Plum, the group vehicle providing member services to the corporate superannuation market and a Director of PFS Nominees, the Plum Trustee, and of MLC Nominees, the trustee for the superannuation business of MLC. He is also a Director of BNZ Life and JANA Investment Advisers Pty Limited. Mr Morath held senior and leadership roles with the Commercial Banking Company of Sydney and State Bank of NSW. He has worked as Managing Director of Australian Bank in the 1980s, and was CEO of MLC Retail Funds and CEO of MLC's corporate funds business in the 1990s. Before retiring in December 2001, Mr Morath worked with Lend Lease Corporation as Group Executive and was responsible for relations with media, analysts, shareholders and government.

Kerr Neilson BCOM, ASIP
Managing Director for 18 years. (Age 62)

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

DIRECTORS' REPORT
CONTINUED

Andrew Clifford BCOM (HONS)
Director for 18 years. (Age 46)

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

Philip Howard BCOM, CA
Finance Director and Company Secretary since March 2011. (Age 51)

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

Directors' Meetings
The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2012.

NAME	BOARD MEETINGS HELD WHILE A DIRECTOR	BOARD MEETINGS ATTENDED	AUDIT AND RISK COMMITTEE MEETINGS HELD WHILE A MEMBER	AUDIT AND RISK COMMITTEE MEETINGS ATTENDED
Bruce Phillips	5	5	4	4
Bruce Coleman	5	5	4	4
Richard Morath	5	5	4	4
Kerr Neilson	5	5	–	–
Andrew Clifford	5	5	–	–
Philip Howard	5	5	–	–

Remuneration Report (audited)

Executive Summary

- There are only three employees remunerated by the Company (the Non-Executive Directors).
- There has been no increase in remuneration (including no bonuses) paid to the Non-Executive Directors since 2003.
- The Executive Directors are not employed or paid by the Company. They are employed by Platinum Investment Management Limited, whose services are governed by the Investment Management Agreement with the Company.

Introduction

The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2012.

The information provided in this Remuneration Report has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 (3C) of the *Corporations Act 2001*.

Key management personnel ("KMP")

For the purposes of this report, the KMP of the Company in office during the financial year were:

NAME	POSITION
Bruce Phillips	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Richard Morath	Non-Executive Director
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director
Philip Howard	Executive Director and Company Secretary

Other than those disclosed above, there are no employees within the Company.

DIRECTORS' REPORT
CONTINUED

Shareholders' Approval of the 2011 Remuneration Report
Following the introduction of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, a 25% or higher "no" vote on the remuneration report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed.

At the last AGM, only 5.7% of total shares on issue voted on the Remuneration Report resolution. Of this small subset, the Company received a "no" vote of 35.29%, but this represented only 2% of total shares on issue.

Despite this very low "no" vote in the context of total shares on issue, the Company took the proactive step of writing to 43 shareholders that voted "no" to canvass their reasons for doing so. The sample targeted investors that held the most shares.

A summary of these reasons and our responses are summarised below:

REASON 1:
Desire to punish the Board for not maintaining shareholder value, because profits, Net Asset Value (NAV), share price and now dividends have fallen.

Our response:
The Company's earnings, NAV, share price and ability to pay a dividend are all directly impacted by the current slowdown in global markets.

Since the Company's inception in 1994 to 30 June 2012, the Company's net assets appreciated 11.1% compound per annum on a pre-tax basis, compared to the return from the MSCI of 3.9% per annum. Over the six months to 30 June 2012, the Company's pre-tax net assets appreciated 3.9%, however this increase has not been sufficient for retained earnings to return to positive territory.

REASON 2:
Directors' remuneration has increased.

Our response:
This is factually incorrect. There has been no increase in remuneration paid by the Company to any of its Directors since 2003, despite several years of good performance during that time.

Remuneration paid to Non-Executive Directors is between $54,500 and $59,950 each.

The Directors are paid a base salary and are not paid bonuses.

REASON 3:
Directors are overpaid given there are only four to five Board meetings per year.

Our response:
Remuneration paid by the Company to its Directors is mid-range when compared to the majority of their peers within the industry.

The remuneration paid covers attendance at both Board meetings and Audit and Risk Committee meetings, as well as keeping abreast of Company-specific and industry developments.

The remuneration reflects the experience and expertise that the Directors bring to the Company and the Directors need to be compensated for time spent in carrying out their responsibilities.

Non-Executive Director Remuneration
The Constitution of the Company requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to Non-Executive Directors.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, is $350,000 per annum (including superannuation). Despite the approval of shareholders to increase Non-Executive Directors remuneration up to $350,000 per annum, only $168,950 in aggregate was paid in 2012.

The Executive Directors determine the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The Non-Executive Directors are not entitled to any other remuneration.

Principles, Policy and Components of Non-Executive Director's Remuneration
Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced directors.

It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors.

Non-Executive Directors receive a fixed fee and mandatory superannuation.

DIRECTORS' REPORT
CONTINUED

Non-Executive Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external advisor.

No other retirement benefits (other than mandatory superannuation) are provided to the Non-Executive Directors. There are no termination payments payable on the cessation of office and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

Remuneration for Non-Executive Directors
The table below presents actual amounts received by the Non-Executive Directors.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Bruce Phillips					
FY 2012	55,000	4,950	–	–	59,950
FY 2011	55,000	4,950	–	–	59,950
Bruce Coleman					
FY 2012	50,000	4,500	–	–	54,500
FY 2011	50,000	4,500	–	–	54,500
Richard Morath					
FY 2012	50,000	4,500	–	–	54,500
FY 2011	50,000	4,500	–	–	54,500
Total Non-Executive remuneration					
FY 2012	155,000	13,950	–	–	168,950
FY 2011	155,000	13,950	–	–	168,950

Executive Director Remuneration
The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are employees of the Investment Manager, Platinum Investment Management Limited. The responsibilities that each of the Executive (and Non-Executive) Directors performs are outlined in the Corporate Governance Statement on pages 24 and 25.

The Executive Directors continue to waive their right to any fee and as a result the Company does not pay the Executive Directors any remuneration.

The Company has never paid any remuneration to the Executive Directors and this waiver is consistent with the practice adopted in the past.

Employment Arrangements of KMP

The key aspects of the KMP contracts are as follows:

- Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements.
- All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- Each contract is for an unlimited duration. The tenure of all Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are only entitled to receive their statutory entitlements.

Link between Company Performance and Remuneration paid

	2012	2011	2010[(1)]	2009[(1)]	2008
Total net investment income/(loss) ($'000)	(10,970)	(8,271)	28,593	39,459	(29,766)
Expenses ($'000)	4,294	4,846	5,126	9,730	4,514
Profit/(loss) after tax ($'000)	(17,546)	(8,773)	17,235	20,567	(23,861)
Earnings per share (cents per share)	(10.59)	(5.35)	11.16	14.74	(19)
Dividends (cents per share)	–	5.9	10.0	10.0	10.0
Net asset value (post-tax) (30 June) ($ per share)	1.07	1.19	1.35	1.33	1.29
Closing share price (30 June) ($)	0.97	1.16	1.42	1.46	1.23
Total fixed remuneration (salary and superannuation) paid ($)	168,950	168,950	200,071	182,092	168,950

(1) Differences in total Directors' remuneration above $168,950 were caused by transitional Director movements, which raised the number of Non-Executive Directors above the core of three, temporarily in parts of these years.

DIRECTORS' REPORT
CONTINUED

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

NAME	BALANCE AT 1/7/2011	ACQUISITIONS	DISPOSALS	BALANCE AT 30/06/12
Bruce Phillips	139,985	290,000	–	429,985
Bruce Coleman	200,000	–	–	200,000
Richard Morath	20,000	7,000	–	27,000
Kerr Neilson	1,648,039	–	–	1,648,039
Andrew Clifford	1,412,006	–	–	1,412,006
Philip Howard	–	–	–	–

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

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

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

Bruce Phillips
Chairman

Kerr Neilson
Director

Sydney, 9 August 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

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

A J Wilson
Partner
PricewaterhouseCoopers

Sydney, 9 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

CORPORATE GOVERNANCE STATEMENT

Introduction

Platinum Capital Limited ABN 51 063 975 431 (the "Company") is a listed investment company on the Australian Securities Exchange ("ASX"). The objective of the Company is to seek long-term capital growth through utilising the skills of the Investment Manager and Administrator, Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management.

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

The Company's main corporate governance practices are set out below and, unless otherwise stated, were in place for the entire year. The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments* ("Governance Principles"), except where indicated.

Company policies, charters and codes referred to in this Statement are provided on the Company's website at http://www.platinum.com.au/corporate_governance.htm.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION 1.1 – *Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions*.

Role of the Board

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

The role of the Board is to promote the long-term health and prosperity of the Company.

Responsibilities of the Board

The principal responsibilities of the Board include:

- monitoring the financial position and performance of the Company;
- ensuring the appointed Investment Manager and Administrator is performing its duties in a skilful and diligent manner, employs qualified and experienced staff and operates appropriate risk monitoring and compliance procedures;
- overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement and Administrative Services Agreement;

– ensuring the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted;
– identifying the principal risks faced by the Company and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
– overseeing the integrity of the financial accounts and reporting;
– overseeing communications and reporting to shareholders;
– appointing the Chair and Board Committee members; and
– setting the charters of the delegated Committees of the Board.

RECOMMENDATION 1.2 – *Companies should disclose the process for evaluating the performance of senior executives.*

As the Company has no senior executives other than the Executive Directors of the Board and the Executive Directors are not remunerated by the Company, it is considered appropriate that their performance be assessed as part of the collective review outlined under Recommendation 2.5.

Principle 2: Structure the Board to add value

RECOMMENDATION 2.1 – *A majority of the board should be independent directors.*

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

Non-Executive Directors: Bruce Phillips (Chair), Bruce Coleman, Richard Morath.

Executive Directors: Kerr Neilson (Managing Director), Andrew Clifford and Philip Howard.

The Board considers that equal representation is appropriate for the Company, given its size and purpose. The Non-Executive Chair has a casting vote where votes are tied.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report on pages 14 to 16.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

Director Independence
All the current Non-Executive Directors of the Company have been assessed as independent. An independent Director is a Non-Executive Director that the Board considers to be independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement.

The Board regularly assesses the independence of each Director by taking into account the factors outlined below:
– the specific disclosures made by each Director as referred to below;
– where applicable, the related party dealings referable to each Director, noting whether those dealings are material under accounting standards;
– whether a Director is, or is associated directly with, a substantial shareholder of the Company;
– whether the Director has ever been employed by the Company or any of its subsidiaries;
– whether the Director is, or is associated with, a supplier, professional adviser, consultant to or customer of the Company, which is material under accounting standards; and
– whether the Director personally carries on any role for the Company other than as a Director of the Company.

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

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

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

Details of offices held by Directors with other organisations are set out in the Directors' Report on pages 14 to 16. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

If a Director's independent status changes, this will be disclosed and explained to the market in a timely manner and in consideration of the Company's Communications Plan.

Materiality
The Board determines "materiality" on both a quantitative and qualitative basis. An item that either affects the Company's net assets by approximately 5% or affects the Company's distributable income in a forecast period by more than approximately 5% of the Company's net profit before tax is likely to be material. However, these quantitative measures must be supplemented with a qualitative examination. The facts (at the time) and the context in which the item arises will influence the determination of materiality.

Access to Information and Independent Advice
All Directors have unrestricted access to Company records and information.

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

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

RECOMMENDATION 2.2 – *The chair should be an independent director.*

The Chair of the Board is an Independent Director.

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

RECOMMENDATION 2.3 – *The roles of chair and chief executive officer should not be exercised by the same individual.*

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

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

CORPORATE GOVERNANCE STATEMENT
CONTINUED

RECOMMENDATION 2.4 – *The board should establish a nomination committee.*

Given the size and purpose of the Company, the Board considers a nomination committee is not warranted. The full Board considers the issues that would otherwise be a function of a nomination committee.

The Board's policy is that the Board needs to have an appropriate mix of skills, experience, expertise and diversity (including gender diversity).

When evaluating, selecting and appointing Directors, the Board considers:
- the candidate's competencies, qualifications and expertise, in addition to diversity of the Board 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 or equal balance on the Board; and
- requirements of the *Corporations Act 2001*, ASX Listing Rules, the Company's Constitution and Board Policy.

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

Under the terms of the Company's Constitution:
- an election of Directors must be held at each Annual General Meeting and at least one Director (but not the Managing Director) must retire from office; and
- each Director (but not the Managing Director) must retire from office at the third Annual General Meeting following his/her last election.

Where eligible, a Director may stand for re-election.

RECOMMENDATION 2.5 – *Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.*

The Board of Directors' Charter requires:

– the Board to review its performance (at least annually) against previously agreed measurable and qualitative indicators;
– the Chair of the Board to review each Director's performance;
– a nominated Director to review the Chair's performance; and
– the Board to undertake a formal annual review of its overall effectiveness, including its Committee.

The Board reviews its performance in terms of Company objectives, Company results and achievements of the Investment Manager and Administrator. The Board ensures each Director has the necessary skills, experience and expertise, and the mix remains appropriate for the Board to function effectively. As a result of these performance reviews, the Board may implement changes to improve the effectiveness of the Board and corporate governance structures. Independent professional advice may be sought as part of this process.

The Board undertook a review of its performance and that of its Committee during the year.

Principle 3: Promote ethical and responsible decision-making

RECOMMENDATION 3.1 – *Companies should establish a code of conduct and disclose the code or a summary of the code as to:*

– *the practices necessary to maintain confidence in the company's integrity;*
– *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*
– *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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

All new employees of the Investment Manager and Administrator receive induction training in relation to the Business Rules of Conduct and are asked to sign an annual declaration confirming their ongoing compliance.

Compliance is monitored by the Compliance team of the Investment Manager and Administrator.

RECOMMENDATION 3.2 – *Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.*

The Company's approach to business promotes a culture of equal opportunity and has the core principles of meritocracy based on ability, fairness and equality. The Company does not discriminate on gender, race, religion or cultural grounds.

As the Company has no full-time employees and given the size of the Board, a diversity policy has not been established under Recommendations 3.2 – 3.4.

The Board's composition is reviewed on an annual basis. In the event a vacancy exists, the Board will include diversity in its nomination process.

RECOMMENDATION 3.3 – *Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with diversity policy and progress towards achieving them.*

Refer to Recommendation 3.2.

RECOMMENDATION 3.4 – *Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.*

The Company has no full-time employees. There are no women on the Board.

RECOMMENDATION 3.5 – *Companies should provide the information indicated in the Guide to reporting on Principle 3.*

The Directors' Code of Conduct and other corporate governance items are posted on the Company's website at http://www.platinum.com.au/corporate_governance.htm

Departures from Recommendations 3.2, 3.3 and 3.4 are explained within their respective sections.

Principle 4: Safeguard integrity in financial reporting

RECOMMENDATION 4.1 – *The Board should establish an audit committee.*

Audit and Risk Committee

The Board has established an Audit and Risk Committee. The purpose of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities relating to the financial reporting and accounting practices of the Company.

Its key responsibilities are to:

– review and recommend to the Board the financial statements (including key financial and accounting principles adopted by the Company);
– review and monitor risks and the implementation of mitigation measures for those risks as appropriate;
– assess and recommend to the Board the appointment of external auditors and 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.

Company Auditor

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

The performance of the Auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

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

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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

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

RECOMMENDATION 4.2 – *The audit committee should be structured so that it:*
- *consists only of non-executive directors;*
- *consists of a majority of independent directors;*
- *is chaired by an independent chair, who is not chair of the board; and*
- *has at least three members.*

The Audit and Risk Committee has three members: Richard Morath (Chair), Bruce Coleman and Bruce Phillips.

All members of the Audit and Risk Committee are independent Non-Executive Directors.

Attendance record at Audit and Risk Committee meetings is provided in the Directors' Report on page 16.

RECOMMENDATION 4.3 – *The audit committee should have a formal charter.*

The Audit and Risk Committee operates under an approved charter.

The Audit and Risk Committee has authority (within the scope of its responsibilities) to seek any information it requires from any employee of the Investment Manager and Administrator or external party. Members may also meet with auditors (internal and/or external) without Management present and consult independent experts, where the Audit and Risk Committee considers it necessary to carry out its duties.

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

Principle 5: Make timely and balanced disclosure

RECOMMENDATION 5.1 – *Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.*

The Company has a Continuous Disclosure Policy.

The Board is committed to:

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

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

Principle 6: Respect the rights of shareholders

RECOMMENDATION 6.1 – *Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*

The Board has adopted a Communications Plan that describes the Board's policy for ensuring shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company.

The Company's primary portals are its website, Annual Report, Annual General Meeting, Half-Yearly Report, Quarterly Investment Report and monthly notices to the ASX.

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

All shareholders have the opportunity to attend the Annual General Meeting and ask questions of the Board.

Principle 7: Recognise and manage risk

RECOMMENDATION 7.1 – *Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

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

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

CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Investment Manager and Administrator, Platinum Asset Management, has implemented risk management and compliance frameworks based on ISO 31000:2009 *Risk Management – Principles and Guidelines* and AS 3806-2006 *Compliance Programs*. These frameworks (together with the firm's internal audit function) ensure that:

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

RECOMMENDATION 7.2 – *The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.*

The Investment Manager and Administrator reports periodically to the Audit and Risk Committee on the effectiveness of its risk management and compliance frameworks with respect to services undertaken for the Company.

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

RECOMMENDATION 7.3 – *The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

In respect of the year ended 30 June 2012, the Managing Director and Finance Director have made the following certifications to the Board:

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

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

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION 8.1 – *The board should establish a remuneration committee.*

Given the size of the Company and the fact that the Executive Directors are not remunerated by the Company, the Board has determined that a remuneration committee is not warranted. The full Board considers the issues that would otherwise be a function of a remuneration committee.

RECOMMENDATION 8.2 – *The remuneration committee should be structured so that it:*

– *consists of a majority of independent directors;*
– *is chaired by an independent chair; and*
– *has at least three members.*

Not applicable – refer Recommendation 8.1.

RECOMMENDATION 8.3 – *Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

Remuneration Policies

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

Further information is provided in the Remuneration Report set out in the Directors' Report on pages 20 to 21.

Remuneration Paid

Remuneration paid to the Non-Executive Directors for the 2011/2012 reporting year is set out in the Directors' Report on page 20.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $'000	2011 $'000
Investment income			
Dividends		**5,744**	4,104
Interest		**22**	65
Net (losses) on equities/derivatives		**(15,454)**	(16,880)
Net gains/(losses) on forward currency contracts		**(1,352)**	8,262
Net foreign exchange gains/(losses) on overseas bank accounts		**70**	(3,822)
Total net investment income/(loss)		**(10,970)**	(8,271)
Expenses			
Management fee	15	**2,719**	3,096
Custody		**163**	185
Share registry		**122**	209
Directors' fees		**169**	169
Continuous reporting disclosure		**181**	189
Auditor's remuneration			
– Auditing and review ($94,300, 2011: $91,156)		**94**	91
– Taxation services ($44,677, 2011: $39,492)		**45**	39
Transaction costs		**204**	203
Withholding tax on foreign dividends		**414**	464
Other expenses		**183**	201
Total expenses		**4,294**	4,846
Profit/(loss) before income tax		**(15,264)**	(13,117)
Income tax expense/(benefit)	2(a)	**2,282**	(4,344)
Profit/(loss) after income tax		**(17,546)**	(8,773)
Other comprehensive income		**–**	–
Total comprehensive income/(loss) for the year	8	**(17,546)**	(8,773)
Basic earnings per share (cents per share)	7	**(10.59)**	(5.35)
Diluted earnings per share (cents per share)	7	**(10.59)**	(5.35)

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

BALANCE SHEET

AS AT 30 JUNE 2012

	NOTE	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents	9(a)	**19,642**	20,204
Financial assets at fair value through profit or loss	3	**160,354**	179,111
Income tax receivable		**435**	–
Receivables	4	**388**	604
Deferred tax assets	2(b)	**3,052**	4,944
Total assets		**183,871**	204,863
Liabilities			
Payables	5	**493**	3,106
Financial liabilities at fair value through profit or loss	3	**2,739**	1,479
Deferred tax liabilities	2(c)	**1,522**	1,132
Total liabilities		**4,754**	5,717
Net assets		**179,117**	199,146
Equity			
Contributed equity	6	**196,536**	195,885
Retained profits	8	**(17,419)**	3,261
Total equity		**179,117**	199,146

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONTRIBUTED EQUITY $'000	RETAINED PROFITS $'000	TOTAL $'000
Balance at 30 June 2010		**192,232**	**26,696**	**218,928**
Total comprehensive income/(loss) for the year		–	(8,773)	(8,773)
Transactions with equity holders in their capacity as equity owners:				
Contributions of equity, net of transactions costs:		3,653	–	3,653
Buy-back of shares under the capital management programme		–	–	–
Dividends paid	13	–	(14,662)	(14,662)
Balance at 30 June 2011		**195,885**	**3,261**	**199,146**
Total comprehensive income/(loss) for the year		–	(17,546)	(17,546)
Transactions with equity holders in their capacity as equity owners:				
Contributions of equity, net of transactions costs:		770	–	770
Buy-back of shares under the capital management programme		(119)	–	(119)
Dividends paid	13	–	(3,134)	(3,134)
Balance at 30 June 2012		**196,536**	**(17,419)**	**179,117**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	**2012 $'000 INFLOWS (OUTFLOWS)**	2011 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Dividends received		**6,053**	3,934
Interest received		**24**	64
Cost of purchases of financial assets		**(101,735)**	(129,465)
Proceeds from sale of financial assets		**101,356**	140,579
Management fees paid		**(2,741)**	(3,127)
Other expenses		**(1,503)**	(1,787)
Income tax paid		**(435)**	(412)
Net cash from operating activities	9(b)	**1,019**	9,786
Cash flows from financing activities			
Proceeds from issue of shares		**770**	3,653
Purchase of shares under the share buy-back programme		**(119)**	–
Dividends paid		**(3,191)**	(14,685)
Net cash from financing activities		**(2,540)**	(11,032)
Net increase/(decrease) in cash and cash equivalents		**(1,521)**	(1,246)
Cash and cash equivalents held at the beginning of the financial year		**20,204**	24,630
Effects of exchange rate changes on cash and cash equivalents		**959**	(3,180)
Cash and cash equivalents held at the end of the financial year	9(a)	**19,642**	20,204

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies

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

The financial report was authorised for issue by the Directors of the Company on 9 August 2012.

The Directors have the power to amend the financial report after issue.

(a) Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The Company is a for-profit entity for the purpose of preparing the financial statements.

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The Balance Sheet is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Company also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the financial statements requires the use of certain critical accounting estimates and judgements, which are included on the following pages.

1. Summary of Significant Accounting Policies CONTINUED

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. The Company exercises judgement in determining the extent of recognition of deferred tax assets in relation to current period realised and/or unrealised tax losses and whether future realised taxable profits are expected to be sufficient to allow recovery of these losses.

At 30 June 2012, the Company is satisfied that there will be sufficient future realised taxable profits to justify recognising its realised losses and only a portion of its unrealised losses on financial assets as a deferred tax asset after careful analysis of the stocks currently held within its portfolio and an assessment of the Company's past earnings history. Please refer to Note 2(b) for further details.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(c) Financial Assets and Liabilities at Fair Value through Profit or Loss CONTINUED
Short equity swaps and short futures are valued based on quoted "ask" prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the Statement of Comprehensive Income in the period they arise.

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

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

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

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

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

(d) Transaction Costs
Initial measurement (cost) on purchase of trading securities shall not include directly attributable transaction costs, such as fees and commissions paid to agents. Incremental transaction costs on purchases of financial assets at fair value through profit or loss are expensed immediately.

1. Summary of Significant Accounting Policies CONTINUED

(e) Foreign Currency Translation

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

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

(f) Investment Income

Interest income

Interest income is recognised in the Statement of Comprehensive Income based on nominated interest rates available on the bank accounts held at various locations throughout the world.

Dividend income

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

(g) Directors' Entitlements

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

(h) Earnings per Share

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

(i) Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(i) Cash and Cash Equivalents CONTINUED
Margin accounts comprise cash held as collateral for derivative transactions.

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

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

(k) Receivables
All receivables are recognised when a right to receive payment is established. Debts that are known to be uncollectible are written off.

(l) Payables
All payables and trade creditors are recognised as and when the Company becomes liable.

(m) Contributed Equity
Ordinary shares are classified as equity.

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

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

1. Summary of Significant Accounting Policies CONTINUED

(p) Rounding of amounts

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

(q) Goods and Services Tax (GST)

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

(r) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9: *Financial Instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2015).

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

The standard contains two primary measurement categories of financial assets: amortised cost and fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivables. Equity instruments will be measured at fair value with fair value changes in traded equity investments taken to the profit or loss. The standard would not have a significant impact on the Company as its equities and derivatives are already recognised at fair value. The Company will apply the revised standard from 1 July 2015.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(r) New Accounting Standards and Interpretations CONTINUED

(ii) AASB 13: *Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013).

AASB 13 explains ways to measure fair value and aims to enhance fair value disclosures. The Company has yet to determine if any of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the precise impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Company does not intend to adopt the new standard before its operative date, which means that it will be first applied in the annual reporting period ending 30 June 2014.

(iii) AASB 2011-4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective for annual reporting periods beginning on or after 1 July 2013).

The revised standard removes the individual key management personnel (KMP) disclosure requirements from AASB 124: *Related Party Disclosures*, for all disclosing entities to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the future.

(iv) *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)* (effective for annual reporting periods beginning on or after 1 July 2014).

These amendments clarify some of the requirements for offsetting financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has legally enforceable right to set off" and also clarifies the application of IAS 32 offsetting criteria to settlement systems. This standard would not have a significant impact on the disclosures contained in the financial report. The Company will apply the standard from 1 July 2014.

1. Summary of Significant Accounting Policies CONTINUED

(r) New Accounting Standards and Interpretations CONTINUED

(v) Disclosures – *Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 Financial Instruments: Disclosures)* (effective for annual reporting periods beginning on or after 1 July 2013).

These disclosures introduce more extensive disclosure requirements into IFRS 7 which focus on quantitative information about recognising financial instruments that are offset in the Statement of Financial Position, as well as those recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard would not have a significant impact on the disclosures already made. The Company will apply the standard from 1 July 2013.

	2012 $'000	2011 $'000
2. Income Tax		
(a) The income tax expense/(benefit) attributable to the profit/(loss) comprises:		
Current income tax provision	**–**	–
Deferred tax liabilities	**390**	(590)
Deferred tax assets	**1,892**	(3,754)
Income tax expense/(benefit)	**2,282**	(4,344)
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit/(loss). The difference is reconciled as follows:		
Profit/(loss) before income tax expense/(benefit)	**(15,264)**	(13,117)
Prima facie income tax on profit/(loss) at 30%	**(4,579)**	(3,935)
Reduce tax payable		
Allowable credits for foreign tax paid	**(318)**	(409)
Increase tax payable		
Deferred tax benefit not utilised from prior year	**596**	–
Current year income tax receivable not recognised	**499**	–
Deferred tax benefit not recognised on unrealised investment losses	**6,084**	–
Income tax expense/(benefit)	**2,282**	(4,344)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

2. Income Tax CONTINUED

(b) Deferred tax assets

In line with our existing accounting policy, the Company exercises judgement in determining the extent of recognition of deferred tax assets in relation to unrealised tax losses and whether future realised taxable profits are expected to be sufficient to allow recovery of these losses. At 30 June 2012, we have not recognised a deferred tax asset of $6,084,000 relating to unrealised investment losses because we cannot say with sufficient certainty that there will be sufficient taxable profits available in the next few years to recoup these losses. The non-recognition of these losses as a deferred tax asset is the main reason for the existence of an income tax expense in 2012.

The balance of deferred tax assets recognised in the Balance Sheet comprises temporary differences attributable to:

	2012 $'000	2011 $'000
Auditing and review	**13**	13
Taxation services	**8**	8
Shareholder communication and reporting	**31**	45
Capital expenditure not immediately deductible	**26**	41
Financial asset payments not immediately deductible	**–**	12
Realised tax losses which may be utilised	**2,405**	2,993
Unrealised losses on financial assets	**569**	1,832
Deferred tax assets	**3,052**	4,944

2. Income Tax CONTINUED

(c) Deferred tax liabilities

The balance of deferred tax liabilities recognised in the Balance Sheet comprises temporary differences attributable to:

	2012 $'000	2011 $'000
Dividends receivable	**20**	114
Accounting/tax cost on investments	**1,502**	1,018
Deferred tax liabilities	**1,522**	1,132

3. Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets		
Equity securities	**157,817**	178,819
Derivatives	**114**	65
Foreign currency contracts	**2,423**	227
Financial assets	**160,354**	179,111
Financial liabilities		
Derivatives	**795**	1,325
Foreign currency contracts	**1,944**	154
Financial liabilities	**2,739**	1,479
Financial assets less liabilities	**157,615**	177,632

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

	2012 $'000	2011 $'000
4. Receivables		
Proceeds on sale of financial assets	**286**	96
Goods and Services Tax	**29**	35
Dividends receivable	**66**	375
Sundry debtors	**7**	8
Interest receivable	**–**	2
Prepayments	**–**	88
	388	604

Proceeds on sale of financial assets are usually received between two and five days after trade date. Dividends are usually received within approximately 30 days of the ex-dividend date. Information relating to the ageing of receivables is shown in Note 12.

	2012 $'000	2011 $'000
5. Payables		
Payables on purchase of financial assets	**23**	2,534
Trade creditors (unsecured)	**455**	500
Unclaimed dividends payable to shareholders	**15**	72
	493	3,106

Payables on purchase of financial assets are usually paid between two and five days after trade date. Trade creditors are unsecured and payable between seven and 30 days after being incurred. These current payables are non-interest bearing. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 12.

6. Contributed Equity

		2012 QUANTITY	**2012 $'000**	2011 QUANTITY	2011 $'000
Opening balance		**164,959,415**	**195,885**	162,258,819	192,232
Dividend reinvestment plan	2-Sep-10 (a)	**–**	**–**	1,460,985	2,002
Reinvestment of unclaimed dividends	17-Sep-10 (b)	**–**	**–**	13,089	18
Dividend reinvestment plan	8-Mar-11 (a)	**–**	**–**	1,186,011	1,577
Reinvestment of unclaimed dividends	19-Mar-11 (b)	**–**	**–**	40,511	56
Dividend reinvestment plan	1-Sep-11 (a)	**769,006**	**723**	–	–
Reinvestment of unclaimed dividends	14-Sep-11 (b)	**28,462**	**28**	–	–
Reinvestment of unclaimed dividends	8-Mar-12 (b)	**19,361**	**19**	–	–
Buy-back of shares	2-Apr-12 (c)	**(10,000)**	**(10)**	–	–
Buy-back of shares	22-May-12 (c)	**(100,000)**	**(98)**	–	–
Buy-back of shares	25-May-12 (c)	**(10,927)**	**(11)**	–	–
Closing balance		**165,655,317**	**196,536**	164,959,415	195,885

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

(b) For reinvestment of unclaimed dividends, additional shares are issued at the last sale price of the Company's shares on the first business day following the expiration six months from the date of payment of the relevant dividend.

(c) On 19 March 2012, the Company announced an on-market share buy-back programme approved by shareholders at the 2010 Annual General Meeting. The buy-back programme commenced on 2 April 2012, with all shares being acquired through the Australian Securities Exchange. At 30 June 2012, 120,927 shares were bought-back.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

6. Contributed Equity CONTINUED

Ordinary Shares

At 30 June 2012, ordinary shares on issue totalled 165,655,317 shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

	2012	2011
7. Earnings per share		
Basic earnings per share – cents per share	**(10.59)**	(5.35)
Diluted earnings per share – cents per share	**(10.59)**	(5.35)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**165,612,373**	163,864,253
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**(17,546)**	(8,773)

There have been no conversions to, calls of, or subscriptions for Ordinary Shares during 2011/2012, other than those issued under the Dividend Reinvestment Plan, reinvestment of unclaimed dividends and those shares bought-back under the share buy-back programme. As there are no potential Ordinary Shares, diluted earnings per share equals basic earnings per share.

	NOTES	2012 $'000	2011 $'000
8. Retained Profits			
Retained profits at the beginning of the financial year		**3,261**	26,696
Net profit/(loss)		**(17,546)**	(8,773)
Dividends paid	13	**(3,134)**	(14,662)
Retained profits at the end of the financial year		**(17,419)**	3,261

9. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

	2012 $'000	2011 $'000
Cash at bank*	**25**	85
Cash on deposit**	**19,617**	20,119
	19,642	20,204

* Includes $11,000 (2011: $68,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $4,925,000 (2011: $7,111,000) on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security. If losses are realised on the close out of derivative contracts, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions.

All accounts are at call and the majority bears floating interest rates in the range of 0.00% to 4.65% (2011: 0.00% to 4.75%).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

9. Notes to the Statement of Cash Flows CONTINUED

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

	2012 $'000	2011 $'000
Profit/(Loss) after income tax	**(17,546)**	(8,773)
Decrease/(increase) in investment securities and forward currency contracts	**20,017**	18,063
(Increase)/decrease in cash due to exchange rate movements	**(959)**	3,180
Decrease/(increase) in settlements receivable	**(190)**	(46)
Decrease/(increase) in dividends receivable	**309**	(170)
Decrease/(increase) in interest receivable	**2**	–
Decrease/(increase) in Goods and Services Tax receivable	**6**	3
Decrease/(increase) in sundry debtors	**1**	(8)
Decrease/(increase) in prepayments	**88**	–
Decrease/(increase) in income tax receivable	**(435)**	–
(Decrease)/increase in accrued expenses	**(45)**	(71)
(Decrease)/increase in settlements payable	**(2,511)**	2,364
(Decrease)/increase in income tax payable	**–**	(412)
Decrease/(increase) in deferred tax assets	**1,892**	(3,754)
(Decrease)/increase in deferred tax liabilities	**390**	(590)
Net cash from operating activities	**1,019**	9,786

(c) Non-Cash Financing Activities

During the year 769,006 (2011: 2,646,996) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash under the Dividend Reinvestment Plan during the year totalled $722,866 (2011: $3,578,944).

10. Statement of Net Asset Value

	2012 $'000	2011 $'000
Reconciling Net Asset Value in accordance with Australian Accounting Standards to that reported to the ASX*		
Net Asset Value per Balance Sheet	**179,117**	199,146
Add:		
Difference between bid price under Australian Accounting Standards and last sale price	**362**	175
Less:		
Deferred income tax asset on movements on Australian Accounting Standards and last sale price	**(109)**	(53)
Net deferred income tax asset in respect of unused current and future year tax losses	**(1,422)**	(3,759)
Net Asset Value	**177,948**	195,509
Net Asset Value – cents per share	**107.42**	118.52

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

	QUANTITY	2012 FAIR VALUE $'000
11. Investment Portfolio		
Japan		
Alpine Electronics	105,200	**1,213**
CyberAgent	157	**391**
Dai Ichi Life Insurance	453	**506**
Denso	68,193	**2,247**
Hamamatsu Photonics	25,515	**839**
Hirano Tecseed	52,300	**294**
Inpex	132	**718**
JSR	62,025	**1,042**
Mitsubishi UFJ Financial Group	267,000	**1,144**
Miura	31,885	**825**
Nagano Bank	2,033	**4**
Nintendo	11,373	**1,288**
Obic	6,953	**1,299**
Pal	38,300	**1,786**
Shin-Etsu Chemical	69,428	**3,705**
Sumitomo Electric Industries	111,938	**1,084**
T&D	187,362	**1,933**
Toyota Industries	88,108	**2,438**
Toyota Motor	51,193	**1,999**
Ushio	80,590	**966**
Yamanashi Chuo Bank	44,235	**169**
Total Japan		**25,890**

11. Investment Portfolio CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
Other Asia		
China		
Anton Oilfield Services	12,764,100	**2,041**
China Mobile	134,394	**1,434**
China Molybdenum	584,964	**207**
China Resources Enterprise	453,826	**1,309**
EcoGreen Fine Chemicals	10,969,682	**1,837**
E-House China – ADR	120,000	**643**
Guangzhou Automobile	828,426	**671**
Hunan Non-Ferrous Metal	429,026	**126**
Ping An Insurance – P Note	63,673	**444**
Shengli Oil & Gas Pipe	11,336,200	**785**
Sina	44,142	**2,233**
Sohu.com	39,652	**1,729**
Trina Solar – ADR	84,335	**523**
Yonyou Software – P Note	365,861	**858**
Yonyou Software – A Shares – long equity swap	63,845	**(11)**
		14,829
Hong Kong		
China Resources Logic	1,027,500	**1,718**
Computime	8,232,300	**467**
G-Resources	956,652	**52**
		2,237

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

	QUANTITY	2012 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
Other Asia CONTINUED		
India		
Housing Development and Infrastructure	376,560	**577**
Unitech	2,233,935	**869**
United Breweries	101,000	**114**
United Spirits	56,055	**678**
		2,238
Korea		
Kangwon Land	48,910	**1,017**
Korea Investment	36,275	**1,173**
Samsung Electronics	4,099	**4,211**
SK Telecom	2,046	**219**
		6,620
Saudi Arabia		
Almarai – long equity swap	28,869	**(28)**
		(28)
Singapore		
Banyan Tree	1,623,000	**683**
Ezra	457,000	**376**
Fraser and Neave	156,802	**844**
Mandarin Oriental International	300,000	**377**
Petra Foods	50,667	**97**
		2,377

11. Investment Portfolio CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
Other Asia CONTINUED		
Thailand		
Bangkok Bank – Foreign	166,491	**1,051**
Bangkok Bank – NVDR	574,332	**3,377**
		4,428
Vietnam		
Vietnam Dairy Product – long equity swap	332,096	**38**
Vietnam Enterprise	537,600	**1,061**
		1,099
Total Other Asia		**33,800**
Australia		
Allied Gold Mining	149,713	**341**
Ivanhoe Australia	152,578	**92**
Newcrest Mining	18,000	**404**
Vantage Goldfields	1,000,000	**90**
Vantage Goldfields – call option	500,000	**–**
Total Australia		**927**
Europe – Euro		
France		
Groupe Eurotunnel	74,813	**592**
Pernod Ricard	25,162	**2,623**
PPR	13,339	**1,851**
Sanofi	55,000	**4,062**
		9,128

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

11. Investment Portfolio CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
Europe – Euro CONTINUED		
Germany		
Adidas	21,200	**1,480**
Allianz	8,168	**800**
Bayerische Motoren Werke	19,171	**1,352**
Daimler	13,138	**574**
Deutsche Boerse	46,810	**2,459**
Henkel KGAA – Vorzug	51,662	**3,345**
Hornbach Baumarkt	73,312	**2,281**
Hornbach	23,720	**1,644**
Qiagen	115,158	**1,880**
Qiagen – ADR	52,469	**855**
Siemens	23,576	**1,930**
SMA Solar Technology	11,000	**367**
		18,967
Italy		
Buzzi Unicem	71,593	**655**
		655
Netherlands		
Royal Dutch Shell	74,031	**2,436**
TNT Express	125,133	**1,428**
		3,864
Spain		
Amadeus IT	125,121	**2,476**
		2,476
Total Europe – Euro		**35,090**

11. Investment Portfolio CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
Europe – Other		
Sweden		
Atlas Copco	(10,541)	**(11)**
Ericsson	231,681	**2,059**
		2,048
Switzerland		
Meyer Burger Technology	29,000	**435**
Roche	11,000	**1,853**
		2,288
United Kingdom		
Carnival	53,247	**1,782**
Petrofac	(33,491)	**48**
Reed Elsevier	178,947	**1,404**
Vodafone Group	271,904	**748**
Weir Group	(3,718)	**(3)**
		3,979
Total Europe – Other		**8,315**

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

	QUANTITY	2012 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
North America		
Canada		
Ballard Power Systems	646,500	**733**
Banro	154,894	**552**
Canfor Pulp Products	44,966	**462**
Crescent Point Energy	(21,318)	**(17)**
Domtar	16,430	**1,227**
Great Basin Gold	192,636	**126**
Nexen	210,691	**3,476**
Thompson Creek Metal	23,651	**74**
		6,633
United States		
Advanced Micro Devices	330,377	**1,846**
Bank of America	580,500	**4,638**
Barrick Gold	15,941	**586**
Capstone Turbine	878,797	**858**
Ciena	138,671	**2,217**
Cisco Systems	208,806	**3,500**
Cummins	(7,341)	**(23)**
Edward Lifesciences	(2,632)	**(44)**
Electronic Arts	80,647	**972**
Finisar	26,913	**393**
Foster Wheeler	157,670	**2,666**
Gilead Sciences	43,100	**2,158**
Google	4,733	**2,682**
Guess?	15,435	**458**

11. Investment Portfolio CONTINUED

North America CONTINUED

United States CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
Halliburton	37,689	**1,046**
HCP	(50,009)	**(152)**
Infinera	98,237	**655**
Jacobs Engineering	55,183	**2,039**
Johnson & Johnson	34,000	**2,244**
KBR	21,058	**508**
Lululemon Athletica	(3,626)	**8**
Macerich	(22,472)	**(63)**
Marvell Technology	180,734	**1,990**
Mercer International	141,000	**785**
MGIC Investment	82,019	**230**
Microsoft	151,000	**4,510**
Newmont Mining	8,000	**379**
NRG Energy	41,128	**698**
Pepsico	38,882	**2,683**
Retail Basket	(32,359)	**(29)**
Russell 2000 Mini Index Sep 2012	(46)	**(171)**
S&P 500 Machinery Index	(4,800)	**(14)**
Salesforce.com	(20,784)	**(111)**
Smurfit Stone	225,000	**–**
Sothebys	24,104	**785**
SPDR S&P Retail ETF	(32,000)	**(52)**
Stillwater Mining	136,582	**1,138**
		42,013
Total North America		**48,646**

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

11. Investment Portfolio CONTINUED

	QUANTITY	2012 FAIR VALUE $'000
South America		
Brazil		
Grendene	226,500	**1,139**
		1,139
Chile		
Sociedad Quimica y Minera de Chile	(19,836)	**(46)**
		(46)
Peru		
Bayer Peru – Trabajo	77,287	**368**
Peru Holding De Turismo – Trabajo	1,667,523	**104**
		472
Total South America		**1,565**
Africa		
South Africa		
AngloGold Ashanti – ADR	26,741	**897**
		897
Zimbabwe		
Dawn Properties	1,806,672	**14**
Delta	1,220,758	**763**
Innscor Africa	1,545,692	**821**
Murray and Roberts	6,879,563	**336**
Padenga	1,297,989	**57**
Riozim	48,989	**15**
		2,006
Total Africa		**2,903**

	2012 FAIR VALUE $'000
11. Investment Portfolio CONTINUED	
Liquids	
Outstanding settlements	**329**
Forward currency contracts	**479**
Cash on deposit	**19,617**
Total Liquids	**20,425**
Total Investment Portfolio reconciles to Note 12(c)	**177,561**
Accounted for in payables (payables on purchase of investments)	**23**
Accounted for in receivables (proceeds on sale of investments)	**(286)**
Accounted for in receivables (dividends receivable)	**(66)**
Accounted for in Financial Assets and Liabilities ($157,615,000 as per Note 3) and Cash on Deposit ($19,617,000 as per Note 9(a))	**177,232**

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

Number of transactions – 2,119

Total brokerage paid – $969,953
($203,572 on purchases and $766,381 on sales)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management

(a) Financial Risk Management Objectives, Policies and Processes

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

Platinum Asset Management's investment style:

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

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

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

(iv) actively manages currency.

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

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

12. Financial Risk Management CONTINUED

(b) Investments at Fair Value and Derivative Exposure

2012	PHYSICAL $'000	LONG DERIVATIVE CONTRACTS $'000	SHORT DERIVATIVE CONTRACTS $'000	NET EXPOSURE $'000
Japan	**25,890**	**–**	**–**	**25,890**
Other Asia	**33,800**	**1,994**	**–**	**35,794**
Australia	**927**	**–**	**–**	**927**
Europe – Euro	**35,091**	**–**	**–**	**35,091**
Europe – Other	**8,281**	**–**	**(1,023)**	**7,258**
North America	**49,314**	**–**	**(20,971)**	**28,343**
South America	**1,611**	**–**	**(1,081)**	**530**
Africa	**2,903**	**–**	**–**	**2,903**
	157,817	**1,994**	**(23,075)**	**136,736**

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management CONTINUED

(b) Investments at Fair Value and Derivative Exposure CONTINUED

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

The Investments shown above in the "Physical" column (totalling $157,817,000 for 2012) reconcile to the fair value of equity securities disclosed in Note 3.

The "Long/Short Derivative Contracts" columns include the notional value of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Investment Portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in Japan, but there was a 2% short position in Nikkei futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the Portfolio was net short the Japanese market.

(c) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency. Platinum Asset Management selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. Platinum Asset Management may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2012, the Company's principal currency exposures were: US Dollar (51%), Asian currencies (ex the Hong Kong Dollar and the Japanese Yen) (11%) and Euro (11%). The Company's exposure to the Australian Dollar was 4%.

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

Where there have been major currency movements or where currencies are perceived to be over or undervalued, Platinum Asset Management may look for investments whose operating environment has been distorted by the lower currency as part of the search for undervalued stocks.

12. Financial Risk Management CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

There may be even opportunities to invest in stocks impacted by a lower currency (for example, export-oriented stocks).

The table below summarises the Company's investment exposure at fair value to foreign exchange risk. The total physical and net exposure reconciles to the total investment portfolio in Note 11.

2012	**PHYSICAL $'000**	**BOUGHT $'000**	**SOLD $'000**	**NET EXPOSURE $'000**
Japan	**29,176**	**–**	**(30,423)**	**(1,247)**
Other Asia	**32,165**	**2,229**	**–**	**34,394**
Australia	**1,492**	**15,642**	**(10,950)**	**6,184**
Europe – Euro	**35,922**	**1,141**	**(17,026)**	**20,037**
Europe – Other	**6,581**	**7,497**	**–**	**14,078**
North America	**70,614**	**45,525**	**(13,635)**	**102,504**
South America	**1,611**	**–**	**–**	**1,611**
Africa	**–**	**–**	**–**	**–**
	177,561	**72,034**	**(72,034)**	**177,561**

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

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

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

Foreign exchange risk sensitivity analysis

The sensitivity analysis below shows what impact a 10% movement in foreign currency at reporting date would have on the Company's profit on monetary and non-monetary assets and liabilities such as cash, forward contracts and equities.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements. The table presents the foreign currency or currencies with the largest impact on profit of the Company.

	2012 +10% $'000	**2012 –10% $'000**	2011 +10% $'000	2011 –10% $'000
United States Dollar	**(8,329)**	**10,179**	(2,903)	3,569
Euro	**(1,821)**	**2,226**	(3,981)	4,866

The sensitivity analysis shows that the Company is materially affected by exchange rate movements (other things being equal), given the global nature of the investments held. Throughout 2011/12, the Company had minimal exposure to the Australian Dollar and thus returns have reduced due to the strength of the Australian Dollar.

12. Financial Risk Management CONTINUED

(ii) Interest Rate Risk

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

The overwhelming majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Therefore, there is no liability exposure to interest rate risk.

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on forward contracts.

The impact of interest rate movements on our investments is not capable of precise estimation.

At 30 June 2012 and 2011, if interest rates had changed by –/+ 100 basis points with all other variables held constant, the direct impact on interest receivable would not be significant for the Company.

(iii) Price Risk

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

Platinum Asset Management's stock selection process is core to the management of price risk. Platinum adopts a thematic stock selection approach and is referred to as being an "active manager". Platinum Asset Management seeks a broad range of investments whose businesses and growth prospects, it believes, are being undervalued by the market.

Accordingly, holdings in the Company may vary considerably from the make-up of a general index. Investment Managers such as Platinum Asset Management seek to outperform the market as represented by an appropriate index.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2012, the Company maintained short positions against company specific stocks and market indices. The use of index derivatives allows the Company to invest in specific companies, whilst providing some degree of protection against more general adverse market price movements.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management CONTINUED

(c) Market Risk CONTINUED

(iii) Price Risk CONTINUED

Price risk sensitivity analysis

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

	2012 +5% $'000	**2012 –5% $'000**	2011 +5% $'000	2011 –5% $'000
Japanese Nikkei 225	**1,294**	**(1,294)**	1,794	(1,794)
S&P index	**1,748**	**(1,748)**	914	(914)

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

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

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

12. Financial Risk Management CONTINUED

(d) Credit Risk

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

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

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

	2012 $'000	2011 $'000
Ratings		
AA	–	474
A+	**16,262**	18,608
A	**3,801**	3,483
A–	**1,842**	–
BBB+	–	75
Total	**21,905**	22,640

Source: Platinum and Standard & Poor's

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

Transactions in listed securities and investments are entered into with approved brokers. Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management CONTINUED

(d) Credit Risk CONTINUED

Ageing analysis

The Company's ageing analysis of receivables (disclosed in Note 4 and the Balance Sheet) at 30 June 2012 is as follows:

	2012 $'000	2011 $'000
0 – 30 days	**336**	181
31 – 60 days	**29**	19
61 – 90 days	**–**	55
90+ days	**458**	349
	823	604

No amounts are past due or impaired.

(e) Liquidity Risk

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

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

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

Financial and Non-Financial Liabilities

All financial and non-financial liabilities are payable within three months.

Non-Financial Liabilities

At 30 June 2012, the contractual maturity for non-financial amounts payable (disclosed in Note 5) is as follows:

	2012 $'000	2011 $'000
Payable within three months		
Unsettled trades	**23**	2,534
Trade creditors and dividends payable	**470**	572
	493	3,106

12. Financial Risk Management CONTINUED

(e) Liquidity Risk CONTINUED

Financial Liabilities

As at 30 June 2012, contractual maturity of financial liabilities (disclosed in Note 3) is as follows:

	2012 $'000	2011 $'000
Payable within three months		
Derivative contractual outflows	**795**	1,325
Forward currency contracts	**1,944**	154
	2,739	1,479

At 30 June 2012, there are no other contractual amounts payable after three months.

The Company has sufficient funds to meet these liabilities as the value of net assets realisable in one year or less is $178,073,000 (2011: $198,432,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

12. Financial Risk Management CONTINUED

(f) Fair Value Hierarchy

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

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

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

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

The following table summarises the levels within the fair value hierarchy that the Company's investments are classified as at 30 June 2012 and 30 June 2011. The Company has no assets or liabilities that are classified as level 3.

2012	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Financial assets			
Equity securities	**156,756**	**1,061**	**157,817**
Derivatives	**114**	**–**	**114**
Foreign currency contracts	**2,423**	**–**	**2,423**
Financial assets	**159,293**	**1,061**	**160,354**
Financial liabilities			
Derivatives	**795**	**–**	**795**
Foreign currency contracts	**1,944**	**–**	**1,944**
Financial liabilities	**2,739**	**–**	**2,739**

12. Financial Risk Management CONTINUED

(f) Fair Value Hierarchy CONTINUED

2011	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Financial assets			
Equity securities	177,947	872	178,819
Derivatives	87	(22)	65
Foreign currency contracts	227	–	227
Financial assets	178,261	850	179,111
Financial liabilities			
Derivatives	1,325	–	1,325
Foreign currency contracts	154	–	154
Financial liabilities	1,479	–	1,479

The above totals reconcile to the total of financial assets less liabilities in Note 3.

(g) Capital Risk Management

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

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the world, so to continue to provide returns to shareholders. Under the capital management programme approved by shareholders, the Company may adjust its capital structure via rights issues and share buy-backs.

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

	2012 CPS	**2012 $'000**	2011 CPS	2011 $'000
13. Dividends (Fully Franked)				
Paid – 2 September 2010	**–**	**–**	5.00	8,113
Paid – 8 March 2011	**–**	**–**	4.00	6,549
Paid – 1 September 2011	**1.90**	**3,134**	–	–
		3,134		14,662

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

13. Dividends (Fully Franked) CONTINUED

Since year-end, the Directors have declared there will be no final dividend for the year ended 30 June 2012 (2011: $3,134,000). This is in addition to the nil interim 2012 dividend declared on 12 January 2012.

	2012 $'000	2011 $'000
14. Franking Account		
Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30%	**7,956**	14,240
Tax paid	**435**	–
Dividend paid – franked @ 30%	**(1,343)**	(6,284)
	7,048	7,956

15. Investment Manager

The Investment Manager, Platinum Asset Management, receives a monthly management fee for investment services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.5% per annum of the Portfolio Value (which includes cash and deposits).

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

At 30 June 2012, the annual pre-tax performance of the portfolio was negative 7.71% and the corresponding MSCI was negative 2.33%. This represents an underperformance of 5.38% against the MSCI. Accordingly, a performance fee has not been accrued. No performance fee has been paid in relation to either the current period or the previous period.

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

15. Investment Manager CONTINUED

Fees paid and payable to Platinum Asset Management for the year is shown in the table below:

	2012 $'000	2011 $'000
Management fee	**2,719**	3,096
	2,719	3,096

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

(a) The terms of the Agreement require Platinum Asset Management to:
  (i) invest and manage the Portfolio in accordance with the Agreement;
  (ii) confer with the Board of the Company at regular intervals in respect of the investment and management of the Portfolio;
  (iii) exercise all due diligence and vigilance in carrying out its functions, powers and duties under the Agreement;
  (iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with; and
  (v) appoint Mr Neilson as Managing Director of the Company.

(b) Each party is to provide three months notice to terminate the Agreement. The Company may immediately terminate the Agreement where Platinum Asset Management:
  (i) becomes subject to a receiver, receiver and manager, administrative receiver or similar person;
  (ii) goes into liquidation;
  (iii) ceases to carry on business in relation to its activities as an Investment Manager;
  (iv) breaches a material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by the Investment Manager under the Agreement; or
  (v) sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking of the Investment Manager or beneficial interest therein, other than to a related body corporate for purposes of corporate reconstruction on terms previously approved in writing by the Company.

The Agreement was entered into to (a) codify changes made to the ASX Listing Rules and (b) codify the range of services provided by Platinum Asset Management to the Company.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

16. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2012 and 30 June 2011.

The Company has no commitments for uncalled share capital on investments.

17. Segment Information

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

(a) Revenue by geographical location is outlined below.

	2012 $'000	2011 $'000
Japan	**(1,684)**	(2,813)
Other Asia	**(669)**	1,034
Australia	**(324)**	(449)
Europe – Euro	**(2,265)**	7,517
Europe – Other	**1,112**	(2,237)
North America	**(5,073)**	(18,909)
South America	**104**	54
South Africa	**(819)**	(730)
Unallocated revenue – Net gains/(losses) on forward currency contracts	**(1,352)**	8,262
Total	**(10,970)**	(8,271)

(b) Revenue by investment type is outlined below.

	2012 $'000	2011 $'000
Equity securities	**(11,906)**	799
Derivatives	**2,196**	(13,575)
Foreign currency contracts	**(1,352)**	8,262
Bank accounts	**92**	(3,757)
Total	**(10,970)**	(8,271)

18. Events Occurring After Balance Sheet Date

No significant events have occurred since balance date that would impact the Balance Sheet of the Company as at 30 June 2012 and the results for the year ended on that date.

19. Key Management Personnel Disclosures

(a) Details of Remuneration

The table below presents actual amounts received by the Non-Executive Directors.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Bruce Phillips					
FY 2012	55,000	4,950	–	–	59,950
FY 2011	55,000	4,950	–	–	59,950
Bruce Coleman					
FY 2012	50,000	4,500	–	–	54,500
FY 2011	50,000	4,500	–	–	54,500
Richard Morath					
FY 2012	50,000	4,500	–	–	54,500
FY 2011	50,000	4,500	–	–	54,500
Total Non-Executive remuneration					
FY 2012	155,000	13,950	–	–	168,950
FY 2011	155,000	13,950	–	–	168,950

Executive Director Remuneration

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are employees of the Investment Manager, Platinum Investment Management Limited. The responsibilities that each of the Executive (and Non-Executive) Director performs are outlined in the Corporate Governance Statement on pages 24 to 25.

The Executive Directors continue to waive their right to any fee and as a result the Company does not pay the Executive Directors any remuneration. The Company has never paid any remuneration to the Executive Directors and this waiver is consistent with the practice adopted in the past.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

19. Key Management Personnel Disclosures CONTINUED

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

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

NAME	BALANCE AT 1/07/11	ACQUISITIONS	DISPOSALS	BALANCE AT 30/06/12
Bruce Phillips	139,985	290,000	–	429,985
Bruce Coleman	200,000	–	–	200,000
Richard Morath	20,000	7,000	–	27,000
Kerr Neilson	1,648,039	–	–	1,648,039
Andrew Clifford	1,412,006	–	–	1,412,006
Philip Howard	–	–	–	–

20. Related Party Dealings

Management fees

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

Administration fees

Under the Administrative Services Agreement, Platinum Asset Management provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. In consideration for providing these services, Platinum Asset Management received a payment of $1 from the Company.

20. Related Party Dealings CONTINUED

Key Management Personnel – Executive Directors

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are related parties of the Company, on the basis that:

(1) they are employees of the Investment Manager, Platinum Asset Management and the Executive Directors receive a portion of the management fee received by the Investment Manager, in their capacity as Directors for the Investment Manager.

(2) the Executive Directors are members of the Board of the Company and consequently carry out various responsibilities which are outlined in the Corporate Governance Statement on pages 24 to 25. The Executive Directors waive their right to any fee or remuneration and as a consequence the Company does not pay the Executive Directors any remuneration.

Key Management Personnel – Non-Executive Directors

Details of remuneration paid to the Non-Executive Directors are outlined in Note 19.

21. The Company

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

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

DIRECTORS' DECLARATION

In the Directors' opinion,

(a) the financial statements and notes set out on pages 36 to 83 are in accordance with the *Corporations Act 2001* including:

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

  (ii) giving a true and fair view of the Company's financial position as at 30 June 2012 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Bruce Phillips
CHAIRMAN

Kerr Neilson
DIRECTOR

Sydney, 9 August 2012

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

pwc

Report on the financial report
We have audited the accompanying financial report of Platinum Capital Limited (the Company), which comprises the Balance Sheet as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

Directors' responsibility for the financial report
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

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

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

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

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

Auditor's opinion
In our opinion:

(a) the financial report of Platinum Capital Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

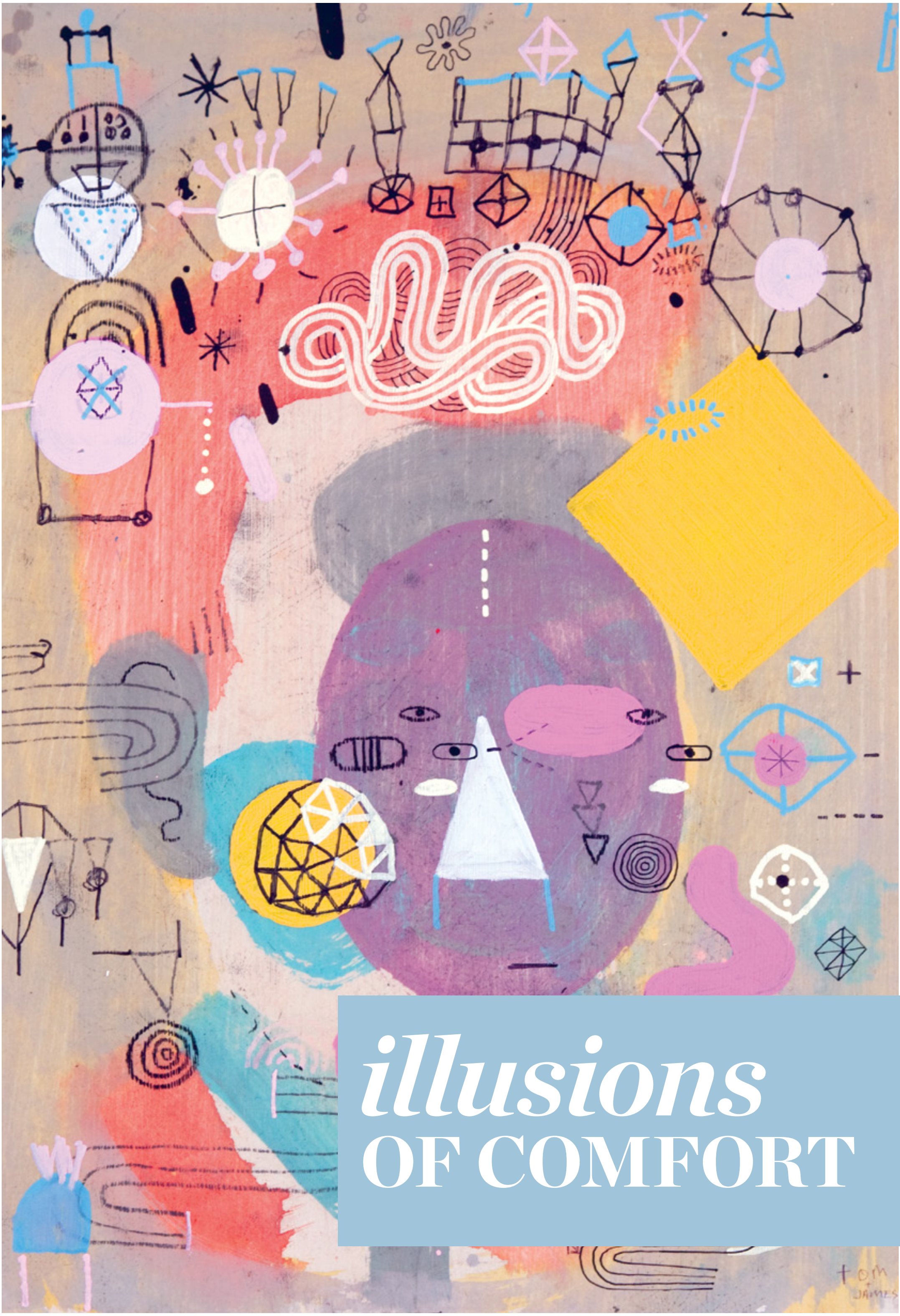
Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Platinum Capital Limited (the Company) for the year ended 30 June 2012 included on Platinum Capital Limited's website. The Company's Directors are responsible for the integrity of Platinum Capital Limited's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report named above. 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 this website.

PricewaterhouseCoopers

A J Wilson
Partner

Sydney, 9 August 2012



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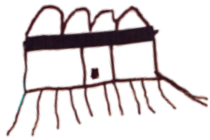

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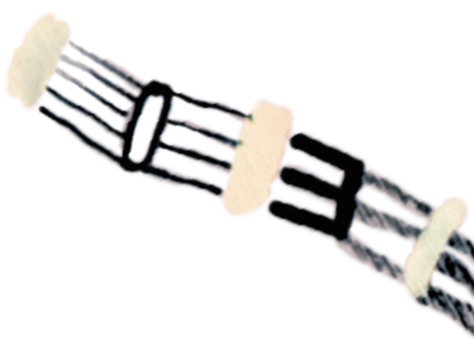
CONTENTS



PREFACE

Twenty years of almost unremitting growth has indeed reinforced the characterisation of Australia as 'the lucky country'. While the fortune of our location and natural endowment can be celebrated, it is easy to forget that prior to the 'great financial unravelling' (GFU), countries like Spain and Ireland too were enjoying a financial boom they hadn't witnessed for centuries. They came unstuck not from careless government deficit spending but partially from their governments inheriting problems from their bank which had overindulged in a credit binge. As they try to adjust via an internal recalibration of wages and prices (unable to devalue on their own as members of the European Monetary Union), the disruption and pain felt by many is very real and unsettling.

The two building blocks of Platinum Asset Management's investment philosophy relate to human behaviour. Firstly, there is a natural predilection to over-emphasise the recent event and secondly, there is a tendency to extrapolate the current situation into the future. We have been questioning for the last 18 months the prospect of China maintaining the high growth rates of the past given the skewing of that country's economy towards an unparallel level of investment. The market is now coming around to our view and is starting to understand the degree to which credit and central allocation have contributed to the astonishing growth record achieved by China.

It was with this in mind that we chose an economic assessment of the Australian economy for this year's report. Some shareholders may find it a little gruelling to process on account of it being somewhat academic and certainly belonging to the Austrian School of Economics. However, there is no escaping the central theme that Australia has been sitting on its laurels for a good while now with the reforms brought in largely by Mr Keating being a fading memory. Without a new bout of reforms that intensifies competition, frees resources and trims down bureaucratic meddling, the message is that we run the risk of severe withdrawal symptoms once our terms of trade deteriorate. To rely on this rare and huge benefit is simply careless. For reference, our current account was in deficit to the tune of 4% of GDP in the first quarter of 2012; a time when the terms of trade are at a multi-decade high, last seen alongside the Korean War.

For those less interested in the text, there are some valuable tables and charts that tell most of the story. Industries that have been left to their own devices like agriculture, have eclipsed the field in terms of productivity while others with strong monopoly positions, like the utilities, have a pitiful record of labour productivity. In terms of new legislation, our esteemed leaders in Canberra have excelled in adding to our burden, with the now disbanded Australian regulation taskforce estimating that one quarter of managers' time is devoted to compliance with the government's rules.

This analysis has interesting implications for you as an investor. Even if you believe that the phenomenon of strong growth in the emerging markets persists, you should perhaps think carefully about the likely supply response that elevated prices will bring to our principal exports. This will also bear heavily on the Australian dollar and may lead you to conclude that investing abroad carries relatively low risk from an Australian dollar appreciation perspective.

Kerr Neilson

Managing Director
August 2012

UNIFORM MEDIOCRITY

...Or how Australia's *'Great Complacency'* will come back to haunt it.

By Justin Pyvis, Ausnomics

“GOVERNMENT CAN NEVER DUPLICATE THE VARIETY AND DIVERSITY OF INDIVIDUAL ACTION.

At any moment in time, by imposing uniform standards in housing, or nutrition, or clothing, government could undoubtedly improve the level of living of many individuals; by imposing uniform standards in schooling, road construction, or sanitation, central government could undoubtedly improve the level of performance in many local areas and perhaps even on the average of all communities. But in the process, government would replace progress by stagnation, it would substitute uniform mediocrity for the variety essential for that experimentation which can bring tomorrow’s laggards above today’s mean.”

Milton Friedman: Capitalism and Freedom

We have worried about the long-term prospects of the Australian economy for a while now. For two decades she has seemingly coasted on the back of the last major crisis which culminated in 'breaking-point' regulatory reform in the 1980s and 1990s, a global debt bubble and a rather fortunate emergence of China as a major trading partner.

We say 'breaking-point' reform because that is how major change has occurred throughout the history of Australia; nothing happens for a long period of time, people get complacent and simply ignore the elephant in the room until circumstances force someone's hand one way or another. It is as Saul Eslake (2011, p. 20[1]) recently noted, where "…historical precedent strongly suggests that Australians, and their political representatives, will feel no great compulsion to embrace a program of productivity-enhancing economic reforms for as long as the mining boom – and the various channels through which the income generated by that boom is recycled and redistributed throughout the Australian economy – delivers continued growth in incomes and high levels of employment".

This is both a blessing and a curse in Australia: on the one hand, problems are allowed to build up and damage is able to be done with almost no recourse; on the other hand, the "Washminster Mutation"[2] political system also allows mess to be sorted out with *relative* ease when the 'breaking-point' is reached.

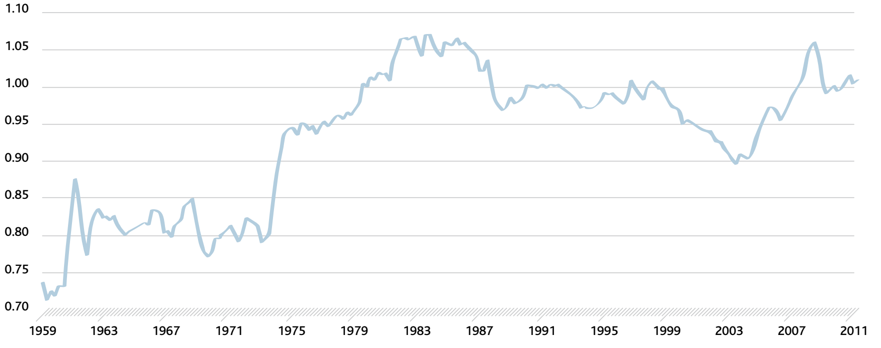
1 http://www.grattan.edu.au/publications/098_eslake_rba_productivity_august-2011.pdf

2 Elaine Thompson (1980), "The 'Washminster' Mutation", in Responsible Government in Australia, eds. P. Weller and D. Jaensch.

Baumol's Disease

One way to measure the productivity of government is through the relative price of government services when compared to the private sector, known as Baumol's Disease (Figure 1). This ratio only began to decline in Australia in 1983 after decades of complacency and the disaster that was the Keynesian revolution had culminated in a permanent growth in the size of government and the stagflationary period of the 1970s. According to former Australian treasury Secretary Ken Henry[3], "…the close to 6 percentage points of GDP expansion in government expenditure during the Whitlam Government has never been reversed. And I think I can safely say that it never will be".

FIGURE 1: BAUMOL'S DISEASE: RATIO OF PUBLIC TO PRIVATE CONSUMPTION DEFLATORS IN AUSTRALIA, SEPTEMBER 1959 – DECEMBER 2011



Source: Ausnomics, ABS

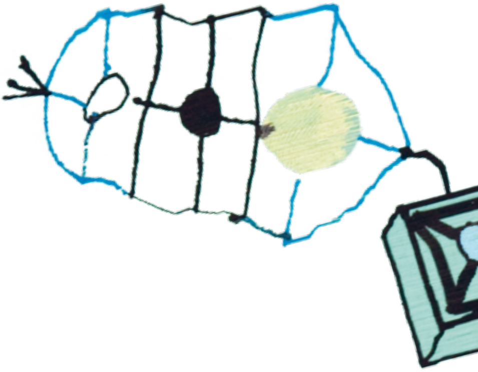
These events all culminated in 'breaking-point' reforms in Australia, starting with the extreme (by today's standards) move of the then Governor-General, Sir John Kerr, to dismiss the entire Gough Whitlam government in November of 1975 and replace it with Malcolm Fraser's opposition. However, it was not until Baumol's Disease peaked in the early 1980s and Paul Keating, then Australia's treasurer, declared that if Australia failed to reform it would become a "banana republic" that started what would eventually be two decades of reforms, floating the Australian dollar, deregulating the financial system, abolishing import quotas, cutting tariffs, freeing the labour market, privatising state-owned enterprises and reducing taxes.

3 Ken Henry (2009), "Fiscal Policy: More than just a National Budget", Address to the 2009 Whitlam Institute Symposium.

Baumol's Disease subsequently contracted until the start of the mining boom in the early 2000s, when the "Great Complacency" officially began.

We should add that while Baumol's Disease may have declined, government was still growing in absolute terms and while politicians had given up trying to run the country through state-owned businesses, they instead decided to regulate it to death; indeed, this could also affect the measured Baumol's disease, as the private consumption deflators we used also include a range of prices in sectors such as health and education which are subject to cost inflation due to inefficient government regulations, understating the extent of the disease.

Baumol's Disease subsequently contracted until the start of the mining boom in the early 2000s, when the "Great Complacency" officially began.



The regulatory burden in Australia has clearly been increasing. The growth in tax legislation alone has resulted in what Ken Henry[4] described as a tax system that "… vastly exceeds human scale… Australia's system now has no fewer than 125 taxes", and "…there could be as many as 160 different state taxes and 259 taxes nationally"[5]. This is why Australia has the world's third most complex tax system[6], with "…approximately 5,700 pages of income tax legislation, and that [sic] almost three-quarters of individual Australian taxpayers apparently need a registered tax agent to prepare their tax return". That is just income tax; Robin Speed from the Rule of Law Association estimated that if the Australian Federal Parliament keeps performing at the current trend, there will be "…830 billion pages of tax legislation by the turn of the next century"[7].

The costs to the economy are huge. Australia's Regulation Taskforce (which was wound up in 2006[8]) estimated that 25% of managers' time is devoted to compliance with the government's rules. This is before new regulation associated with the incoming mining and carbon taxes (plus the taxes themselves) are considered and we can be sure that these will serve to increase costs, raise Australia's risk profile and further discourage foreign capital, a source of funding that Australia being a vast, low-populated nation is dependent on for her future prosperity.

The increasing regime uncertainty means businesses (both existing and potential) cannot know or hope to comply with all the regulations in place and so instead simply wait to discover which rules they are expected to follow. This affects small businesses disproportionally, with risk-management experts Robyn Fairman and Charlotte Yapp finding that most small businesses simply ignore regulations until inspectors come knocking at which point they attempt to comply[9].

4 http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/speeches/01.htm

5 http://www.taxreview.treasury.gov.au/content/Paper.aspx?doc=html/publications/papers/report/section_2-03.htm

6 http://www.aph.gov.au/house/committee/jcpaa/taxation06/report.htm

7 http://www.smh.com.au/national/welter-of-laws-seen-as-threat-to-country-20091120-iqvo.html#ixzz1pcjhwcLz

8 http://www.regulationtaskforce.gov.au/

9 Robyn Fairman and Charlotte Yapp (2005), *Enforced Self-Regulation, Prescription and Conceptions of Compliance within Small Businesses: The Impact of Enforcement, Law & Policy* Vol. 27, No. 4, p. 491-519.

THE WORRYING SIGN IS NOT JUST THE GROWTH IN REGULATIONS AND THE COSTS OF COMPLYING, BUT THE FACT THAT AUSTRALIA HAS FALLEN BACK IN ALMOST EVERY MEASURED INDEX RELATIVE TO HER GLOBAL PEERS.

For example, in the OECD's integrated product market regulation indicator Australia dropped in ranking from an above-average 5th in 2003 to a below-average 13th in 2008, due to "...the rate of reform, relative to comparator countries, having slowed in recent years"[10].

Not to fear, Australia has started reforming. Reform in the shape of a carbon and mining tax that the outgoing chairman of Australia's Future Fund (a kind of sovereign wealth fund) David Murray described as "…the worst piece of economic reform I've ever seen in my life in this country", with the "…consequence of introducing that tax at that level in Australia today [sic] is very, very bad for this economy, particularly in terms of its international competitiveness…it raises costs further within Australia, it reduces our competitiveness for export of energy-related commodities and it therefore renders us less competitive in the future". As for the mining tax, he described it as "clumsy" and that "…the timing at the top of the terms of trade was not good". Whenever the government jumps on the bandwagon (in this case the mining boom), you can be sure that the cycle is close to if not at its peak; politicians gamble with other people's money and have a 'colourful' track record as far as investing goes!

Australia is not doing well on the trade front either. In 2010 (prior to the mining and carbon taxes) the OECD ranked Australia's artificial barriers to foreign direct investment as the 7th highest among the 34 "advanced nations". In fact, it is easier for Australians to invest in Chinese real estate than it is for people from China to buy property in Australia[11]!

We are not alone in our thinking that Australia has been embarking on what Ross Garnaut dubbed[12] "…the great Australian complacency of the early 21st century", where Australia faces "…a period when there's very little economic capacity to increase per capita living standards". While we may disagree with a lot of what Garnaut preaches, we do agree that Australia is nearing the end of her "great complacency" where government largesse was allowed to grow unimpeded on the back of a growing economy and increasing living standards for the average Australian, with people preferring to believe that all of the growth in government was a tolerable 'free lunch' rather than something that will have to either reverse its course or detract from future living standards when the good times end.

10 http://www.treasury.gov.au/igr/igr2010/Overview/pdf/IGR_2010_Overview.pdf

11 http://resources.news.com.au/files/2010/11/15/1225953/995883-101116-aes.pdf

12 http://www.rossgarnaut.com.au/Documents/Breaking%20the%20Australian%20Complacency%20of%20the%2021st%20Century%202005.pdf

When will the good times end?

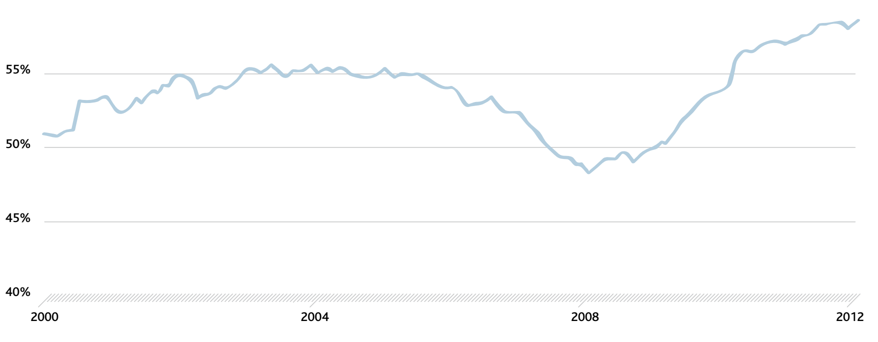
"Analysis, whether economic or other, never yields more than a statement about the tendencies present in an observable pattern. And these never tell us what will happen to the pattern but only what would happen if they continued to act as they have been acting in the time interval covered by our observation and if no other factors intruded."

Joseph Schumpeter: Capitalism, Socialism and Democracy

If there was a question on everyone's mind, it would be: how long can Australia continue to ride her luck before something triggers an event necessary to collapse the whole stack of cards?

It is a question we have been trying to answer for some time. As we pointed out earlier, Australia has performed poorly as far as implementing *beneficial* economic reform during the good times which means that when they end, the bust will be all the worse for it. Labour markets have become more inflexible, wages are 'stickier', resources have been misallocated *en masse* and the financial sector – on which any modern economy depends – has suckled on the teet of government for so long that it has created a pool of systemic risk meaning that a crash in one industry will likely be felt as an economy-wide recession requiring further assistance rather than a relatively isolated incident in one asset class (Figure 2).

FIGURE 2: AUSTRALIAN BANKS' RESIDENTIAL LOANS AS A % OF LENDING, JANUARY 2000 – JANUARY 2012



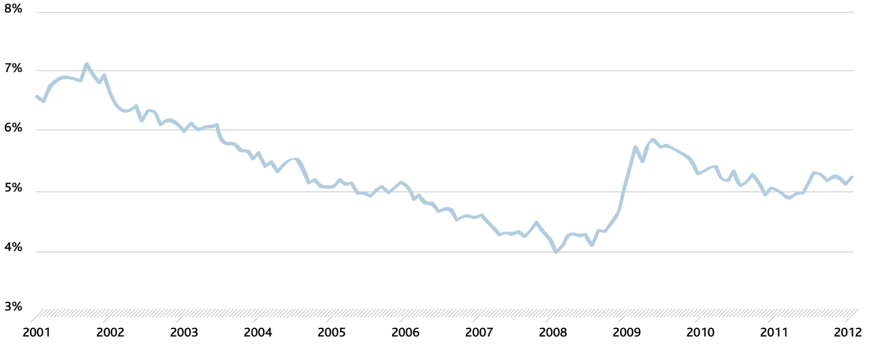
Source: Ausnomics, RBA

The Ricardo Effect

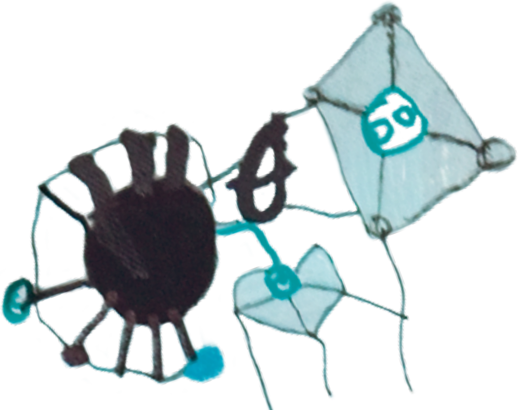
For an idea as to when the bust will come, we can find a clue in what Hayek dubbed the "Ricardo Effect" – the Ricardian (David Ricardo was an eminent British economist of the classical tradition) proposition that a rise in real wages will cause businesses to substitute capital for labour and vice versa.

As the price of products that businesses sell increases (starting with commodities in Australia in this case), real wages fall and thus the level of profit rises provided that nominal wages do not increase by as much. This has had the effect of keeping Australia's employment near what economists call its 'natural rate', or maximum, for years (Figure 3).

FIGURE 3: AUSTRALIAN UNEMPLOYMENT (% OF LABOUR FORCE), FEBRUARY 2001 – FEBRUARY 2012



Source: Ausnomics, ABS



For the purpose of our analysis, the key is *real wages*, the *relative* profitability of industries in Australia and the movement of the interest rate in response to these signals. Hayek (1939, p. 27-28), in his essay *Profits, Interest and Investment*, pointed out that:

"If the rate of interest had been allowed to rise with the rate of profit in the prosperous industries, the other industries would have been forced to curtail the scale of production to a level at which their profits correspond to the higher rate of interest. This would have brought the process of expansion to an end before the rate of profit in the prosperous industries would have risen too far, and the necessity of a later violent curtailment of production in the early stages would have been avoided".

In the case of Australia, the prosperous industries Hayek speaks of are those directly involved in and related to the mining sector. The other industries are those that came along for the ride even when they should not have, the prime examples being housing and related industries (e.g., construction and finance, Figure 4)[13].

FIGURE 4: % CHANGE IN TOTAL EMPLOYMENT AND $ VALUE ADD FOR SELECTED AUSTRALIAN INDUSTRIES, JUNE 2000 – JUNE 2011

INDUSTRY	VALUE ADD	EMPLOYMENT	VALUE ADD PER HOUR WORKED
Mining	336.30	181.36	57.27
Finance	150.60	27.39	101.45
Construction	138.74	50.33	61.96
Transport	125.33	27.54	84.83
Public Administration	106.17	48.95	42.49
Real Estate Services	104.71	41.04	54.07
Electricity, Gas, Water	87.98	89.57	-1.24
Retail Trade	86.41	22.90	59.39
Agriculture	73.35	-25.43	134.45
Manufacturing	37.66	-10.32	56.44

Source: Ausnomics, ABS

Interestingly, sitting at the bottom of the table is the much bemoaned Australian manufacturing industry, adding just 38% value add in a decade (and it is probably negative when you remove subsidies). However, an industry *just as exposed to an appreciating dollar* in the form of Agriculture (Australia exports over half of her food production) has not only managed to almost double in value add over the same period, but has almost tripled in productivity (value add per hour worked) compared to that of manufacturing. We have no doubt in our mind that this relative success is owed to less government intervention in agriculture, less union meddling and therefore a far more flexible and vibrant industry, able to adapt to changing times by investing in labour-saving capital equipment. How long this can last we do not know; the government has taken notice and is developing a "National Food Plan"[14], something you can be sure will add a bit of manufacturing-style "uniform mediocrity" to the industry.

"If the rate of interest had been allowed to rise with the rate of profit in the prosperous industries, the other industries would have been forced to curtail the scale of production to a level at which their profits correspond to the higher rate of interest. This would have brought the process of expansion to an end before the rate of profit in the prosperous industries would have risen too far, and the necessity of a later violent curtailment of production in the early stages would have been avoided".

13 And as we have argued before, we believe that the exogenous shock that is fuelling the mining boom is itself built on a bubble in China and artificially cheap credit thanks to the 'liquidity' provided by the US along with the combination of fiat currencies and the structural flaws in the global financial system that allows this 'hot money' to find its way into Australia where it is treated as if it were real savings, fuelling domestic asset prices.

14 http://www.news.com.au/breaking-news/australias-food-sector-enjoys-healthy-growth/story-e6frfku0-1226316641893

While the mining boom initially helped to reduce real wages in manufacturing, the global financial crisis (GFC) in 2008 put an end to that as a strong Australian dollar and a general lack of international competitiveness in Australian manufacturing caused real labour costs to soar.

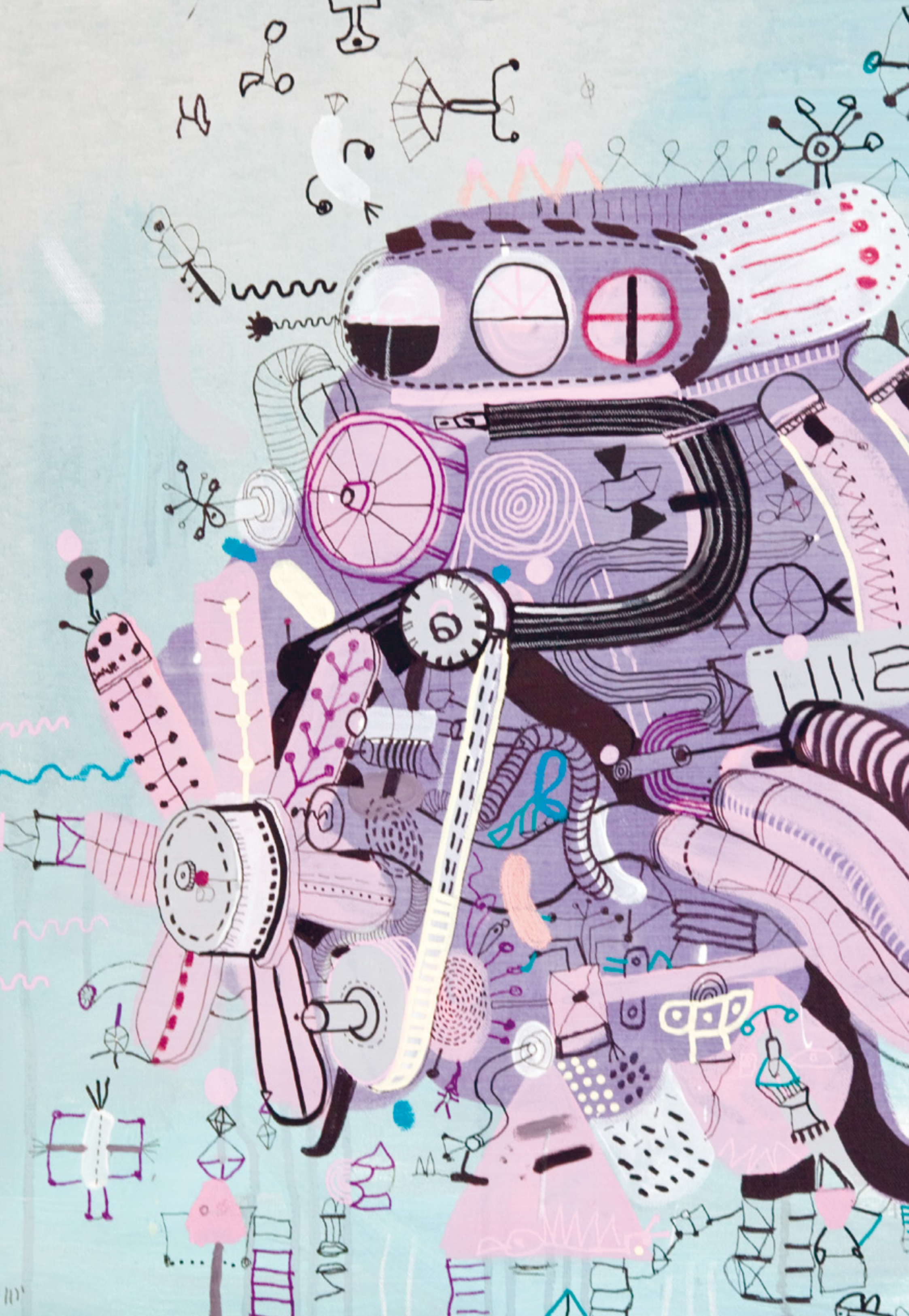
Productivity?

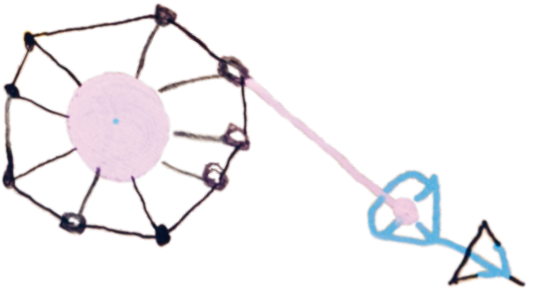
A lot has been written about Australia's declining multifactor productivity[15]. Most studies use the ABS's figures on multifactor productivity (MFP) and bemoan the lack of productivity growth in Australia (there was significant negative MFP growth over the past decade), but we find these productivity indexes of questionable use given that they overlook the role prices play. For example while MFP has declined drastically in the mining sector (ABS estimates put it at negative 24.3% for the early boom years between 2000-01 and 2006-07[16]), our preferred measure of dollar output per hour worked had risen almost 60% over the same period.

This is because high commodity prices and soaring profits in the industry have allowed 'less productive' – that is, marginal mine sites – to be mined and for 'less productive' labour to be drawn from other areas of the economy with high *nominal* wages. Thus while MFP declines, the total incomes and thus the standard of living of the people involved increases. However, if the increasing numbers of marginal mining projects (which have long lead times before they produce anything) are met with a slowdown in commodity price growth, i.e. a China slowdown, then the largely immovable capital sunk in these mines will have to be written off and the productivity gains will fail to materialise.

15 See for instance the Productivity Commission's *Long Term Trends*, http://www.pc.gov.au/research/productivity/estimates-trends/trends

16 http://www.pc.gov.au/__data/assets/pdf_file/0005/84911/mining-productivity.pdf

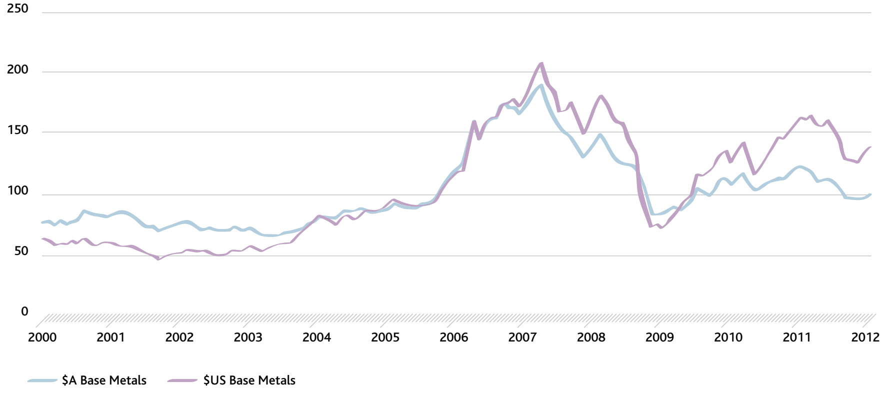




So long as the dollar value of output per hour worked and real wages continue their inversely-related trends, we would expect the current boom in Australia to continue. We can see what happens to an industry when this trend reverses; jobs are lost and the industry concerned either stagnates due to an inability to adjust (reallocate resources) or simply declines.

While the mining boom initially helped to reduce real wages in manufacturing, the global financial crisis (GFC) in 2008 put an end to that as a strong Australian dollar and a general lack of international competitiveness in Australian manufacturing caused real labour costs to soar. This is something we would expect to happen in other industries when the China story comes to an end, which will eventually be signalled through a reversal in the trend of commodity prices and the Terms of Trade (Figure 5; Figure 6)[17].

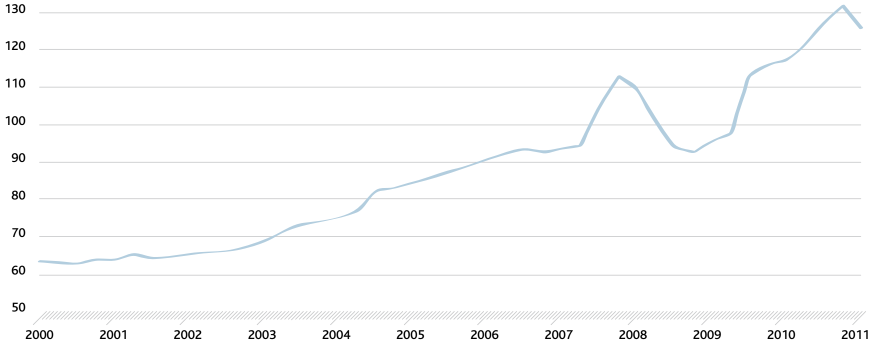
FIGURE 5: BASE METAL PRICES, FEBRUARY 2000 – FEBRUARY 2012



Source: Ausnomics, RBA

17 We must add that these charts are more backwards-looking than usual – unfortunately the ABS only publishes annual data every June for one of the data sets we rely on so that is all we were able to use.

FIGURE 6: AUSTRALIA'S TERMS OF TRADE, DECEMBER 2000 – DECEMBER 2011



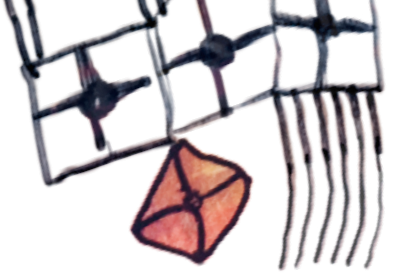
Source: Ausnomics, ABS

Our theory tells us that in the boom phase the real wages faced by miners and all industries carried along for the ride (some more so than others) should be declining – those areas furthest removed from final consumption – and profits relatively high, something we have witnessed.

While in a perfect world[18] the interest rate would have adjusted to reflect the demands coming from the mining sector, forcing other sectors to *expand less quickly*, in reality the *relative* rate of interest – that is, the deviation from the natural rate – did not rise as much as it would have had it not been for the price-fixing of the Reserve Bank (RBA) and its international colleagues. When the rate of interest is too low[19] – *even if rates have been cut, they may still be too low* – some things become relatively cheaper than they would have been otherwise, in particular more capital intensive and risky investments. Cantillon effects exist and the structure of production is distorted and it is only down the road that people realise those investments cannot be sustained at the same level as they were before.

18 Hayek in *Profits, Interest and Investment: "…in the absence of an automatic mechanism making rates of interest move with rates of profits it would require superhuman wisdom to adjust them perfectly by deliberate policy".*

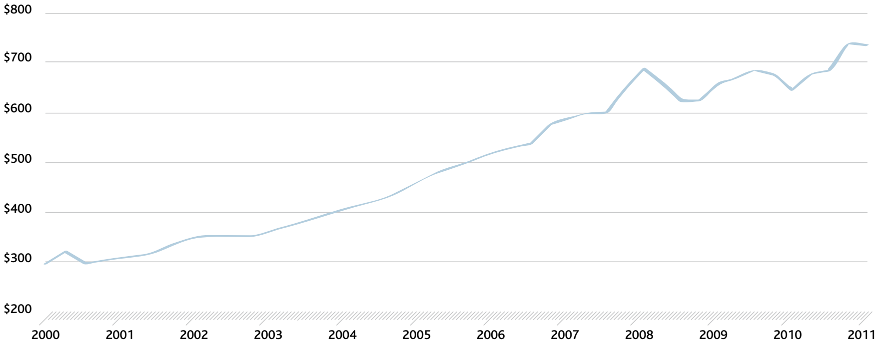
19 Vice versa, if the rate is too high we get a stifling of growth, or a rate of growth below the optimal rate.



The recent announcement by BHP Billiton[20], the world's largest miner, that it plans to invest $100bn over the next 8 years – a sum larger than its total CapEx in the past 20 years – is an example of the kind of 'bubble peak' signal we are always looking out for.

Rather than an exogenous boom in China being solely-related to the mining sector,[21] the boombust cycle spread throughout the real economy thanks to the intertwining of the financial system with the whole economy, something exacerbated by the oligopoly grant provided to the nations' banks (meaning that failure is likely to be systemic rather than isolated and therefore the government will be forced to intervene). Debt levels built up and consumption (housing is a consumer good) and investment (businesses) were largely financed through increases in debt and speculation in ever-rising asset prices (Figure 7; Figure 8; Figure 9; Figure 10).

FIGURE 7: AUSTRALIA'S NET FOREIGN DEBT, DECEMBER 2000 – DECEMBER 2011 ($ BILLIONS)

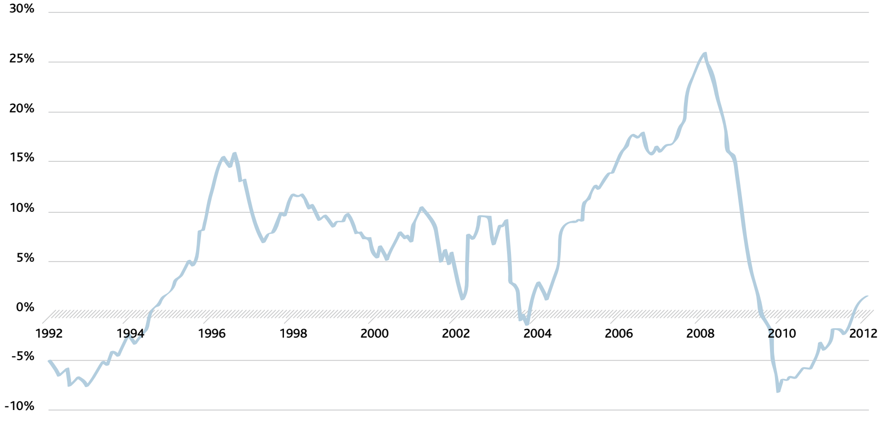


Source: Ausnomics, ABS

20 http://afr.com/p/business/companies plans_attract_more_scrutiny_odhifVKqinsSGSthHXd5tK

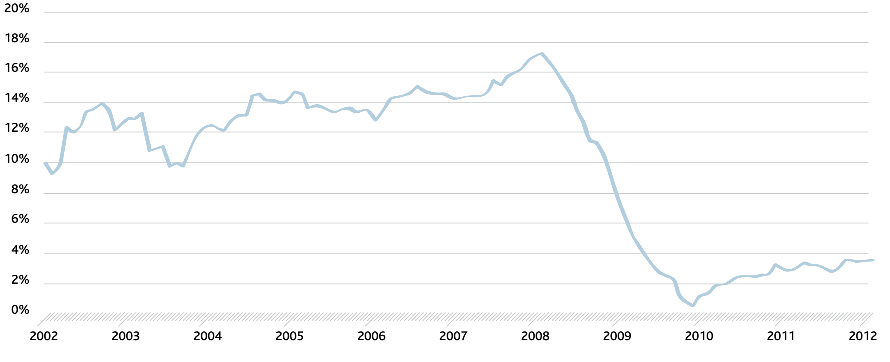
21 We must again stress that 'hot-money' induced booms cannot spread across borders to the extent that they can today if the recipient country was operating with a (or several) less 'facilitative', sound currency.

FIGURE 8: AUSTRALIAN BUSINESS CREDIT GROWTH: JANUARY 1992 – JANUARY 2012 (%YoY)



Source: Ausnomics, RBA

FIGURE 9: TOTAL AUSTRALIAN CREDIT: JANUARY 2002 – JANUARY 2012 (%YoY)



Source: Ausnomics, RBA

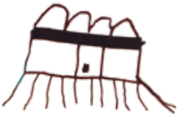
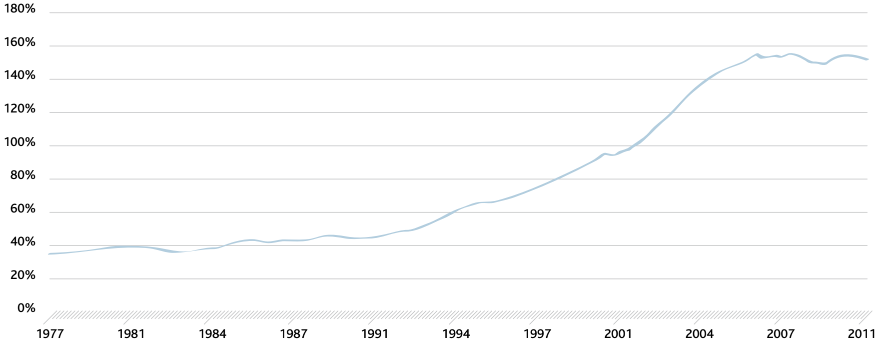


FIGURE 10: TOTAL AUSTRALIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME: SEPTEMBER 1977 – SEPTEMBER 2011



Source: Ausnomics, RBA

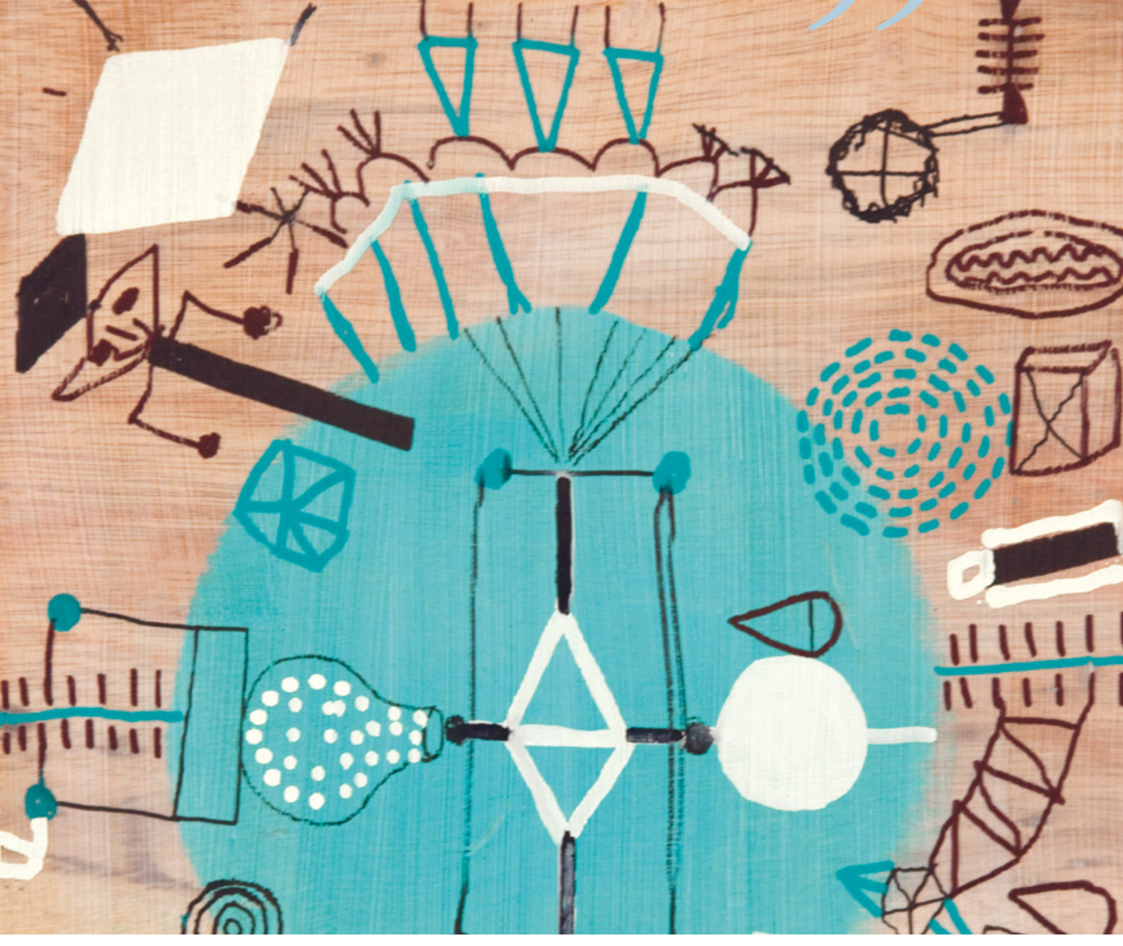
Both consumption and investment expanded as the production possibility frontier (excuse the economic jargon, think of the total 'mix' of potential economic output) was pushed outwards beyond what is sustainable. While a normal, healthy economy will always be pushing outwards with investment and consumption increasing in accordance with real savings and eventually lower prices, an unsustainable one follows a different path where the economy is still growing but the manipulation of the interest rate sends entrepreneurs an incorrect signal and so both investment and consumption expand beyond what is sustainable, creating misallocations and sowing the seeds of the future bust.

It is at that point where the economy, through the price system, tries to move back to the old, sustainable path that a recession ensues (as some of the expansion was 'good' growth, this does not mean a contraction to the level of consumption and investment before the boom started).

IT IS A CUMULATIVE PROCESS, INDEED AN EXPLOSIVE PROCESS,

leading further and further away from an equilibrium position till the stresses become so strong that it collapses.

F.A. Hayek, Profits, Interest and Investment



Conclusion

"Argentina became very rich, despite its extractive institutions, because of a resource boom. And that then came back to bite it. If you become very rich because of a resource boom, but your institutions are deeply extractive, the moment that resource boom goes away, or even before, the conflict is there and people [politicians] are going to use these institutions for enriching themselves."

Daron Acemoglu, Why Nations Fail

Australia is not Argentina; at least not yet. Her fundamental institutions are still strong despite a gradual erosion in various freedom and business indexes over the "great complacency". However, to draw from Acemoglu again, certain industries are built on "extractive" institutions, where growth comes not from increasing the size of the pie but from extracting rents from society. One such industry is banking, where the concentration of risks such as mortgage finance in a small number of banks results in local disruptions being transmitted across the country. It is where [sic] "…the financial sector through its political influence distorted the rules of the game, benefiting executives in the industry, which in turn led to outsized rewards and ultimate instability in the financial industry"[22].

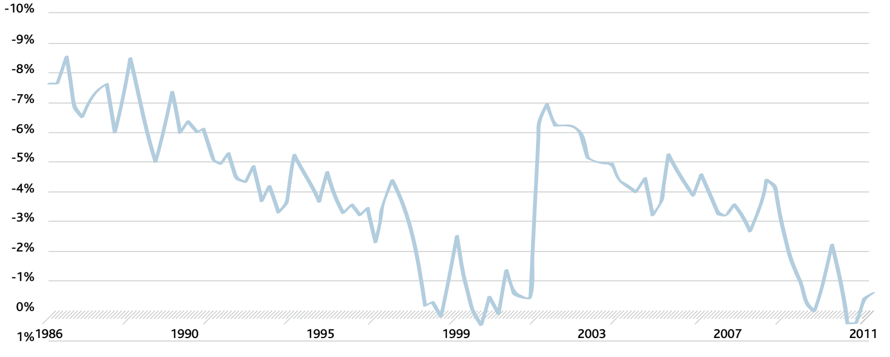
Australian banks have grown to their gargantuan proportions not through innovation and efficiency gains but by capturing government support available only to the largest banks – something that they have even managed to have enshrined in their 'four pillars' policy. Combined with the incentives provided by the Basel regulations which nudged banks into real estate, this institutional structure has mutated what should have been a local issue into a potential national disaster.

22 http://www.econtalk.org/archives/2011/02/acemoglu_on_ine.html

Speaking of housing, the housing industry is still flat lining and is showing no real signs of reigniting despite a slight downwards movement in the Current Account Deficit and the best effort of the government[23] and the banks', with RateCity reporting that "Nearly 70 per cent of lenders are writing home loans with deposits as low as 5 per cent of the value of the property", compared "…to just 50 per cent of lenders two years ago"[24].

However, while property might fizzle for decades, the real trigger for the bust – that is, declining commodity prices as a result of a slowdown in China which will cause *real* wages to increase and therefore force businesses to switch to more capital-intensive, labour-saving means to survive – looks like it could be just around the corner (Figure 11).

FIGURE 11: AUSTRALIAN REAL NON-FARM LABOUR COSTS, SEPTEMBER 1986 – DECEMBER 2011 (INVERSED; % CHANGE YoY)



Source: Ausnomics, ABS

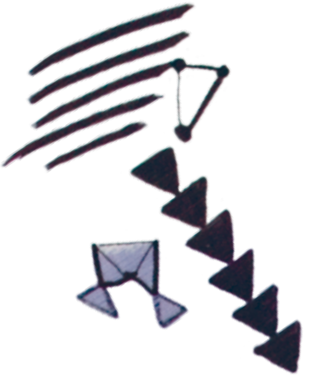
23 As we reported in our last *ExposAsia*, zoning in Australia is some of the worst in the world. For a recent example, Urban Development Institute of Australia WA said that developers in Western Australia must put their plans through 13 different government agencies for approval, a process which "…was taking between seven and 14 years to complete, adding thousands of dollars to the cost of a home", http://www.watoday.com.au/wa-news/housing-shortage-and-costs-to-worse-industry-body-20120329-1w09f.html

24 http://www.news.com.au/money/banking/borrowers-lured-with-high-risk-loans/story-e6frfmcr-1226300561296

How long can Australia rely on falling real labour costs? The data would seem to indicate that her time is just about up, with the rate of decline decelerating throughout the 2000's and even turning positive briefly during the 2009 financial crisis (Figure 11). While real labour costs have fallen slightly since then, we believe that Australia is at the end of the most recent credit-induced boom and that government efforts to kick-start it will – unlike in 2009 – fail. The result will be rising unemployment and house price declines, the extent of which will depend on whether the government and RBA decide to let the economy restructure (which will result in short-term unemployment and a rapid decline in asset prices) or a long, drawn-out and possibly stagflationary period where the structural problems in the economy are not solved efficiently through the price system but are maintained in 'limbo' with only the most marginal businesses being forced to reallocate their resources.

While interest rates will be slashed, they will not be able to fix the structural problems in the economy and will at best keep mortgage holders from defaulting and marginal businesses above water. The Australian dollar, relying on the carry trade and China for its strength, will collapse when the bust comes as the smart money looks for safer yields elsewhere.

> **"Once a certain point is passed, although the decline of investment may be postponed for a long time by keeping the rate of interest low, it is bound to come, and that the further the point is put off, the greater will be the rise in the rate of profit and consequently also the ultimate decline of investment."**
>
> *F.A. Hayek, Profits, Interest and Investment*



Labour in Australia (with the exception of manufacturing) is still cheap in real terms. But when wages begin to rise whether as a result of higher nominal wages or lower profits (e.g. commodity prices) it will result in rising unemployment and all of the usual suspects that follow including a weaker dollar and short-term deflation in both consumer goods and asset prices. Deflation will occur because in spite of the inevitable efforts to inflate by the RBA and spend by the government the combination of deleveraging and, in the short term, the excess of unused resources ready to 'soak up' the liquidity will outweigh their efforts. As Ludwig von Mises[25] said:

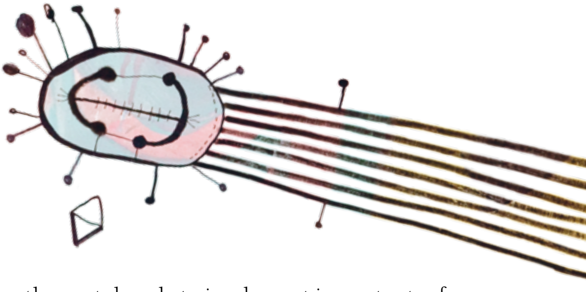
> **"Even on an unimpeded market there will be at times certain quantities of unsold commodities which exceed the stocks that would be held under static conditions, of unused productive plant, and of unused workmen. The increased activity will at first bring about a mobilisation of these reserves. Once they have been absorbed the increase of the means of circulation must, however, cause disturbances of a peculiar kind".**

It is only once the "unused" productive resources begin being put back to work[26] that we will begin to see the inflationary effects of the stimulus efforts, where the employment created through 'stimulus' is inherently unstable, accentuating future problems.

That an external shock such as the China boom could cause such distortions is not to say that all business cycles are exogenous and therefore unavoidable. No, it is the combination of an exogenous shock when combined with flawed domestic institutional structures that allows them to continue unabated to the extent we see today. Today it is a boom in China's demand for Australian resources; tomorrow it could be anything. If domestic institutions are unsatisfactory, then the boom-bust cycle must ensue.

25 1928, *Geldwertstabilisierung and Konjunkturpolitik*

26 Note that a significant stagflationary period in the medium term is possible if real wages remain high and profits remain low, as businesses choose to utilise a large amount of capital per worker. This effect combined with the inflationary forces of a depreciating currency and monetary stimulus should eventually offset the natural deleveraging and deflationary (caused by unemployment) effects.



Australia had a fantastic opportunity over the past decade to implement important reforms that would liberate labour markets and reduce the burdens that certain state-controlled industries (e.g., electricity and water) place on households as well as lower entry barriers to allow competition to improve efficiencies across the board (e.g., banking and retail). In the retail sector, for example, Mr Weickhardt of the Productivity Commission has said there were "troubling signs" that larger retailers were relying on barriers to entry to protect their profitability[27]. This was in response to a Productivity Commission report[28] that put the poor performance of the retail sector into context, producing estimates suggesting that labour productivity in that sector in 2007 was some 38% lower than in the United States, some 20-35% below that in Germany, the United Kingdom and France, and *only marginally higher than in Spain or Greece!*

The Commission concluded that "…it appears likely that the size of the gap between Australia and the US has been increasing; nor has Australia made any significant gains in its position in regards to other leading countries".

While we would love to be able to tell you that x will happen at y point in time, that would be an impossible task and one that – unlike some of our colleagues – we are not prepared to commit to. However, we hope we have pointed out that there are some very serious problems in the Australian economy that will almost certainly result at the very least in a long period of subdued growth, with the more extreme long-term alternative being hyperinflation. Unfortunately we simply cannot predict the actions that those in power will decide to take when confronted with a situation in which they must act.

27 "What we've said is the government needs to lift restrictions that inhibit new competitive retailers from coming in here, and lift restrictions stopping existing retailers from responding and adapting to that new competitive environment."

28 http://www.pc.gov.au/projects/inquiry/retail-industry/report

Centralised, 'pro-active' attempts at alleviating the perceived local problems in the economy will result at best in uniform mediocrity, the unseen cost of progress that was never achieved to be cast aside and simply ignored. We leave you with the words of Don Lavoie[29] who summed up the failure of 'planning through regulation' the best (what Australia has been using since the 1980s), where:

> "THE SAME LACK OF KNOWLEDGE ON THE PART OF ANY SINGLE PERSON OR ORGANIZATION
>
> **which makes it impossible for comprehensive planning to replace the market also makes it irrational for a non-comprehensive planning agency to try merely to 'guide' the market. If the guiding agency is less knowledgeable than the system it is trying to guide – and even worse, if its actions necessarily result in further undesired consequences in the working of that system – then what is going on is not planning at all but, rather, blind interference by some agents with the plans of others."**

29 1985, *National Economic Planning: What is Left?*

Justin Pyvis, *Ausnomics, ExposAsia,* No. 8/2012, 10 April 2012. Edited extract.