Slow motion forward

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Over the years we have managed to assemble some interesting material that we then present to shareholders for their interest and consideration. Last year's offering, which in essence contrasted China and Russia, proved timely in the subsequent economic chaos. The vulnerabilities highlighted in *The Myth of the Authoritarian Model* proved highly prescient in Russia and if heeded would have been highly beneficial to investors.

This year's offering is more prosaic. The two articles, kindly supplied through Credit Suisse, emphasise the returns that equities, bonds and cash have offered over the last 108 years! With so much uncertainty and a gradual change in the economic order, it is always tempting to run up the flag of an original idea, without testing the view against a long sweep of time. This material, which contains some very concentrated data, depicted in charts, will probably surprise you. It may also steady your views should you be in a state of high emotion.

Remember over the long-term the principal drivers of your return from equities are the following:

- the initial dividend yield
- the real growth of the dividend
- the effect of inflation
- the changes in the value placed on that income stream.

In the hurly burly of the markets, where capital values can move dramatically in a very short time, we like to believe that most of our gains come from capital appreciation. Empirically, this has been so… but by only a tiny margin. In fact the running dividend yield has typically been responsible for just shy of half of the long-term return from shares.

Another surprise for some may be the observed real growth of dividends. In the USA, this figure has been just 1.2% per year over the last 108 years. For the 17 countries in the study, the real growth has been a fair bit lower at 0.65% pa.

I suspect some readers will find this testing to believe. In the last 10 to 15 years how often have you heard bold forecasts by companies targeting to "grow their businesses by 15% pa"? The apparent discrepancy stems from the composition of an index of companies – where there are invariably some corners of the economy that are in decline. This drags down the average. Secondly, the measure of dividend growth pertains to dividend growth per share so where there is share issuance to create growth this distortion is ironed out. Further, growth can for a short time be augmented by the use of financial gearing (leverage). However, over the longer horizon this expedient is invariably laid bare. No better example of this exists than in this latest bust where the true cost of gearing was painfully revealed.

Clearly, within markets there will be young industries that are growing quickly and others in decline and this may cause some of us to frame our expectations with a higher growth bias. Internally at Platinum we have been in awe of the fortunes made from retailing. After WWII, many would perhaps have put their money on the prospects for automobiles and consumer durables, but as it transpired, the "economics" of the mass roll-out of a successful retail store format and the democratisation of the shopping public, have left most others in the shade. Property has been another "winner" but we suspect returns have been heavily influenced by leverage!

As you study these papers the good news is that your faith in shares may be renewed. You may also realise that the experience of the last 20 years, perhaps gave a rose-tinted view of what is reasonable to expect from shares. For that matter, the returns from shares in the second half of this last century were well over twice that of the first half of the 20th century. This was not because earnings grew faster (accelerated) but because the value attributed to earnings rose. There was a systematic elevation of valuations that gave rise to a pleasant surprise – with hindsight. In the jargon of the industry, the reward for the risk of owning the vicissitudes of a real business, the so-called risk premium, increased from about 3% to 6% between the two successive 50 year blocks of the 20th century.

As we gaze uncertainly into the mist ahead, take comfort from the fact that the last 108 years of economic development have been marked by innumerable setbacks. Are we to believe that the coming 100 years is to be so different that doubts about the reward for taking equity risk will cause us to seek refuge in bonds and bills? We do not believe so, and reckon on the cockroach-like survival qualities of capitalism to continue to see shares deliver a superior return over that available from bonds and cash.

Kerr Neilson

Managing Director August 2009

Possible Futures

Jonathan Wilmot

From Credit Suisse Global Investment Returns Yearbook 2009

Looking at very long-run data on economic and investment performance puts the present in perspective and helps us form views on possible futures. At Credit Suisse, the Global Strategy department in London started to gather information stretching back to the 19th century and beyond – principally for the USA and the UK – in the early 1990s. Since then, public interest in longer-term trends has progressively escalated and no one has done more than Drs. Dimson, Marsh and Staunton to extend and publicize our knowledge of financial history. In the current crisis that is more valuable than ever.

The value and fascination is not of course that history repeats itself exactly. It is far too complex and non-linear a process for that. But human nature is another matter: it is seemingly inevitable that we oscillate – on a smaller or larger scale – from excessive optimism to excessive pessimism in response to periods of unusually good or bad economic performance. And back again. Which is what imparts a shared DNA to otherwise different economic cycles and financial crises: they are like siblings or cousins, where a largely common pool of genes is mixed differently, sometimes producing an easily recognizable family resemblance, sometimes not.

We have argued for many years that deregulation, technology and globalization have made the world economy more structurally like the late 19th century and early 20th century than the more familiar period between World War II and 1982. It's as if some long dormant genes had suddenly found the conditions to become active again. In our view, between the revolutions of 1848 and World War II – and indeed even before that – the basic process was one of investment-led growth responding to some fundamental new opportunity, in many cases related to the spread of railroads and the opening up of new markets or sources of supply.

Each boom was accompanied, sooner or later, by a bubble of some sort (land, equities, emerging bonds) and a speculative phase of excess leverage and credit availability. Huge international capital flows – most obviously from lower interest rate countries with excess savings – would flow towards these new investment opportunities and contribute to the easy credit conditions and asset price overshooting.

Inevitably, some seemingly minor event would prick the bubble, leading to a financial crisis that saw demand contract abruptly, usually leaving an excess of new capacity and a shortage of business and financial confidence in its wake. During these episodes, internationally mobile savings would flow back to the safety of the home market, putting strain on the gold standard system of fixed exchange rates, and adding to the deflationary pressure on asset prices. In nearly every single case, the crisis was or became global, rather than largely confined to one country.

In fact, major crises of international capitalism occurred in 1825, 1837, 1847, 1857, 1866, 1873, 1878, 1890, 1893, 1907, and, of course, 1929. Yet despite the periodic upheavals, the late 19th century saw the greatest leap forward in global prosperity the world had experienced up until then: the underlying deflationary bias and propensity to financial crisis was not incompatible with sustained growth and development. On the contrary, these upheavals were the means of "correcting market imperfections" and "eliminating speculative and inefficient projects," eventually clearing the way for new savings and capital to be directed towards the next fundamental opportunity. Periodic instability was the price of dynamic progress. That was even true for what was known for a long time as the Great Depression of 1892–96. But, especially in the United States, the "Roaring 20s" and the subsequent crash and depression of the 1930s represented a break with the past in terms of the scale, depth and length of wealth destruction, underemployment, economic volatility and human misery. This is one of the things that stands out most clearly from the historic record: there has never been anything like it before or since. And it changed the whole political and social landscape too, arguably contributing to the rise in both communism and fascism, and the instability in Europe that led to World War II. In time, it also led to a new system of regulated corporatism, government intervention, limited capital flows and Keynesian demand management.

And so that Great Depression is now the one we remember, and that we are now desperate to avoid. Indeed, we can be almost certain that a 21st century version of the 1930s would lead to a revolt against the current system of global capitalism and relatively free markets, spark social unrest on a wide scale, and frustrate the ambitions of billions of citizens in the emerging world. Ultimately, peace as well as prosperity would be at risk.

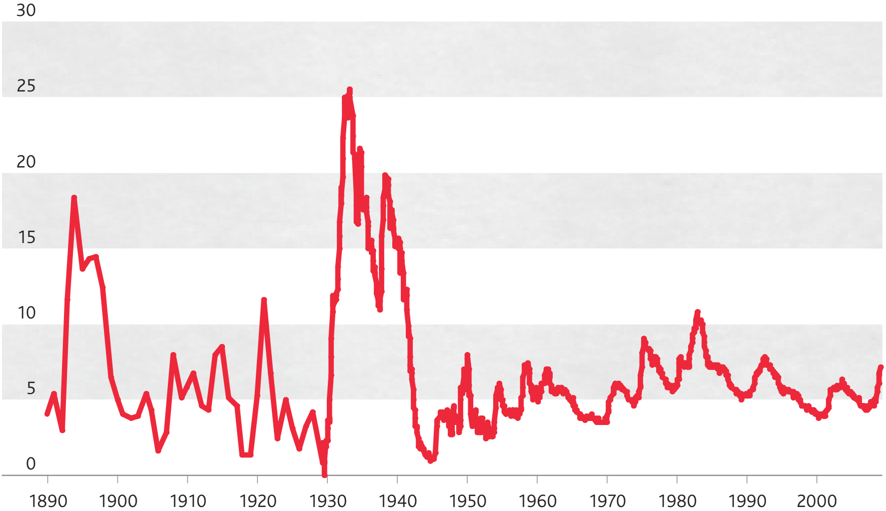
> **Despite the periodic upheavals, the late 19th century saw the greatest leap forward in global prosperity the world had experienced up until then.**

A tale of two depressions

According to the Columbia Electronic Encyclopedia, 6th ed., a depression in economic terms is a "period of economic crisis in commerce, finance, and industry, characterized by falling prices, restriction of credit, low output and investment, numerous bankruptcies, and a high level of unemployment. …Recovery is generally slow, the return of business confidence being dependent on the development of new markets, exhaustion of the existing stock of goods, or, in some cases, remedial action by governments."

After the failure of Lehman Brothers in September 2008, global equity markets and economic activity dropped almost vertically, an experience without real precedent since World War II, but typical of 19th century panics. At their November 2008 low, all major equity markets, developed and emerging, had fallen 45%–75% from their peaks, with roughly two thirds of the damage done in just two months – from mid-September to mid-November. This was a crash added on top of a standard bear market.

The real economy crashed too. In the last quarter of 2008, developed market GDP fell at a 6% annualized rate, the worst performance since the first oil shock. And, after a five-year boom unmatched since the 1960s, global industrial production fell by nearly 10% in the six months to January 2009, again with most of the damage done in October and November. Spare production capacity soared in this period to a level nearly twice as high as in 1982 and 2001. Behaviorally and psychologically, therefore, the current crisis already felt like a depression by early 2009, with "falling prices, FIG 1 **US unemployment rate from 1890 to 2008** (%)



Source: Credit Suisse

restriction of credit, low output and investment, numerous bankruptcies" and sharply rising unemployment.

Figure 1 suggests a less emotional interpretation, however. In the early 1890s, unemployment reached 17%, and took roughly eight years to return to a "normal" level. In the 1930s, it peaked at 25% and did not return to "normal" until World War II. Unemployment in some of the biggest US cities was also said to have reached 25%–30% during the long slump of the 1870s. By contrast, in the "great recessions" just after World War I and the second oil shock, unemployment peaked at around 10%–12%. Persistent unemployment above 10%–12% might therefore count as the real mark of a depression.

So talk of another "Great Depression" looks premature to say the least, even if most economists expect unemployment to rise well above 8% in the USA and 10% in the Eurozone in this downturn. More accurate to say, perhaps that the panic of 2008 marks the end of the so-called "Great Moderation," the term that had come to be used for the last 20 years or so, when shallow recessions and smoother growth became the expected norm. And that the unprecedented policy measures taken after the Lehman

> **‘Talk of another ‘Great Depression’ looks premature to say the least, even if most economists expect unemployment to rise well above 8% in the USA…’**

crash reflect a common perception that this is first time in 80 years that a genuine threat of pernicious debt deflation has been present.

Time will tell whether the policy response has been too much, too little or about right, but it is driven in large part by the desire to avoid a repeat of Japan’s “lost decade” and informed by the US experience of the 1930s.

Just how destructive – and how exceptional – that experience was is clear from several other metrics. Industrial output fell by 54% from peak to trough between August 1929 and January 1933 compared to “just” 16% in around 18 months in the early 1890s. One point easily forgotten is that there were three distinct phases of declining output in the 1930s. The first phase lasted about 6 months, during which industrial production fell about 12%, only slightly worse than in the current episode. After a brief stabilization, output dropped a further 20% between mid-1930 and the spring of 1931. This was the period when banks started to fail in large numbers, the money supply started shrinking and protectionism spread like wildfire around the globe after the passage of the Smoot/Hawley Tariff Act. Even at this point – when output was around 30% below its peak – the 1930s was not unique. For example, industrial output fell as much after both World War I and World War II, and in 1937–38.

There was a small rebound in output in the summer of 1931, but, in the autumn, the UK left the gold standard and raised interest rates, attracting large gold inflows from other countries. The Federal Reserve responded by raising interest rates themselves, and the final dreadful decline in output and stock prices began. In the following 12–15 months, US production plunged over 35%, and stock prices fell by 72% as still more severe bank runs occurred and confidence evaporated almost completely. It is this third and final phase of the depression that truly marks it as different from any episode before or since.

It is of some interest to note which components of real GDP fell the most. The estimates are only annual averages, but point to an 18% decline in personal consumption between the peak in 1929 and the trough in 1933, with a recovery to some 4½% above the 1929 level by 1937. Both gross business investment and total construction spending were at peak levels for the cycle in 1926, declining slightly thereafter, but by 1933 they had fallen to negligible levels, down 98% and 82%, respectively, from their peaks. Even in 1937, business investment was still 15% lower than in 1926, with construction expenditure over 50% below peak. Overall real GDP is estimated to have fallen by just under 30% between 1929 and 1933, and was just over 4% above peak by 1937.

Deflation in the 1930s was also severe. The consumer price level dropped by just over 25% in 3½ years, compared to around 5% over five years in the 1890s. Wholesale prices plunged by around a third between 1929 and 1932. Nominal GDP fell by 47% over the course of the depression and, even by the time war broke out in Europe, was still 10% below its 1929 level.

On sudden changes in the channels of trade

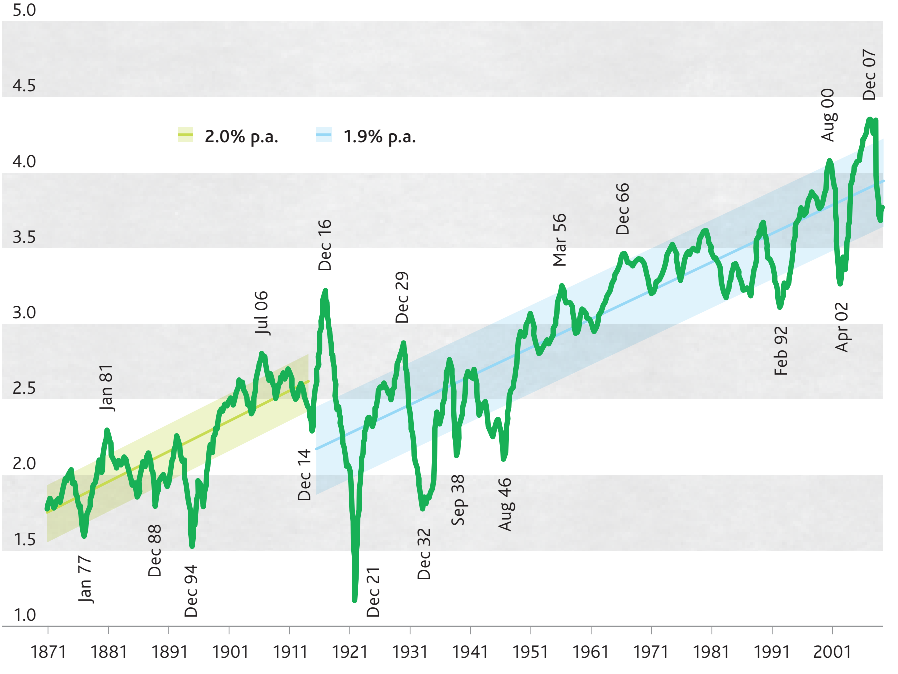
"The commencement of war after a long peace, or of peace after a long war, generally produces considerable distress in trade. It changes in a great degree the nature of the employments to which the respective capitals of countries were before devoted; and during the interval while they are settling in the situations which new circumstances have made the most beneficial, much fixed capital is unemployed, perhaps wholly lost, and labourers are without full employment." Ricardo – *On the Principles of Political Economy and Taxation* – Chapter 19 (1821).

Looking at real earnings per share (using the Shiller data) provides a different and perhaps surprising perspective. Here it is not the 1930s that are the standout exception, but rather World War I, so much so that earnings never recovered to their late 19th century trend, but simply resumed an almost identical growth rate (of about 2% per year) from a lower level.

On our interpretation of the data, therefore, World War I is remarkable in two entirely opposite respects: it recorded the largest overshoot of real earnings per share relative to trend (in 1916), a level not subsequently exceeded until the 1960s! Meanwhile, in the deflationary aftermath, the largest undershoot occurred (1920–21), when real EPS fell below the level of 50 years earlier and the original trend was never restored. And it seems as though the trend growth rate in real EPS has been roughly in line with the very long-run growth rate of productivity, which has been around 2% per year.

As to oscillations around the trend, it seems that the biggest declines in both real output and profits come after major wars or in depressions "during the interval while (capital is) settling in the situations which new circumstances have made the most beneficial" and the excessive enthusiasms of the last boom are being worked off.

FIG 2 **US real EPS: log levels (%)**



Source: Credit Suisse

The other striking feature of Figure 2 is that the "Great Moderation" in nominal and real GDP growth of the past 25 years or so is not at all visible in the data. In fact, even in the early 1990s and early 2000s, real EPS troughed about 40% below trend, and exhibited cyclical volatility rather similar to the 19th century and the inter-war period. In the 1930s, real EPS fell 65% and troughed about 50% below trend, while real EPS declined by 51% in the 1890s episode, (and also troughed about 50% below trend). We estimate that real earnings were nearly 48% below peak, and 38% below trend by the end of 2008, with by far the biggest decline coming in financial sector profits. Thus, in terms of aggregate earnings volatility, it is actually the 1950s and 1960s that qualify as the "Great Moderation" and which stand out as the exception to the rule.

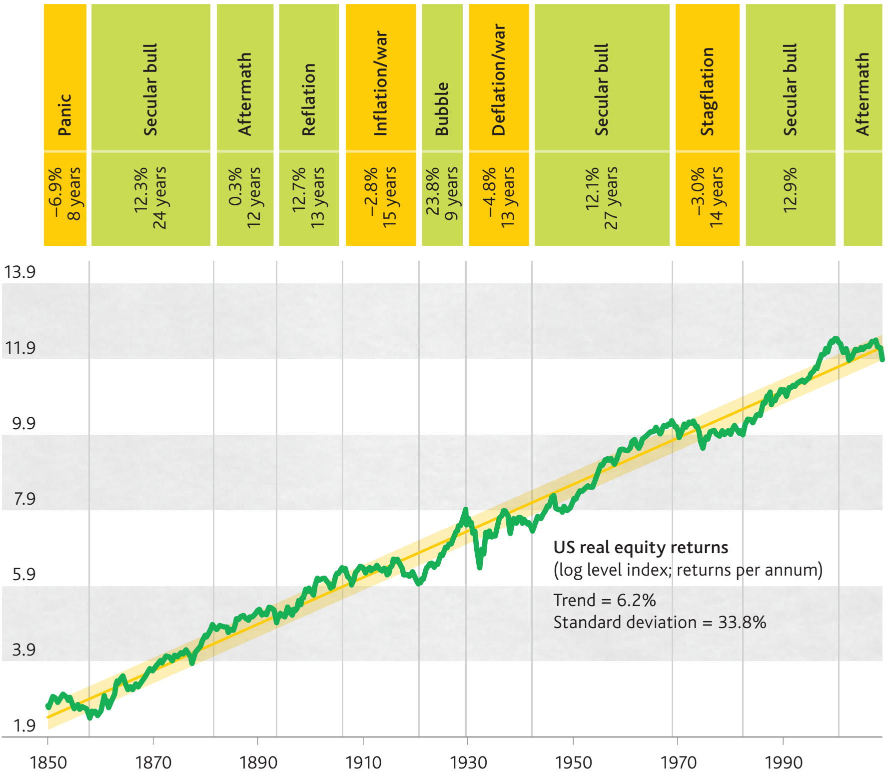
There would seem to be only two possible explanations. Either firms today have far more operational gearing to the real economy, so that smaller changes in capacity utilization have a larger impact on profits. Or the corporate sector – financial and non-financial – uses less share capital per unit of earnings, i.e. firms have taken advantage of a more stable economy to increase leverage, substituting debt for equity in the capital structure, and preserving, as it were, the level of risk in the system as a whole.

“Large firms with strong balance sheets, resilient cash flows, the ability to finance growth internally and/or continued access to credit markets are the potential winners in this process.”

That increased leverage is a likely and perhaps inevitable response to lower volatility – that stability breeds instability – is amply demonstrated by the behavior of financial firms in the build-up to the current crisis. Equally, the scale of this crisis and the sudden shift in the perceived stability of the economy it has already brought about will almost certainly change household, corporate and financial sector attitudes to leverage even without regulatory intervention. In the short to medium run, this cannot be achieved without a corresponding increase in public sector debt, and greatly increased risks to economic stability. But it would not be surprising if the most enduring legacy of the current crisis was a change in the balance between debt and equity on private sector balance sheets, a long-term trend towards lower leverage and perhaps eventually rather lower volatility of earnings around trend.

In the meantime, we can expect two already emerging trends to go a lot further. First, in both the financial and non-financial sectors, increased issuance of new equity capital when market conditions permit is likely, while stock buybacks are likely to diminish and debt buybacks are likely to become more common. At the same time, increased consolidation and industry concentration has in the past always been a feature of depressions or periods with a substantial overhang of excess capacity. Large firms with strong balance sheets, resilient cash flows, the ability to finance growth internally and/or continued access to credit markets are the potential winners in this process. As long ago as the 1870s, the depressed state of the economy and credit markets allowed people like Carnegie and Rockefeller to buy many smaller firms and competitors at fire sale prices, and build vast new business empires.

FIG 3 **US real equity returns (%)**



Source: Credit Suisse

Credit and capital

Depressions – and especially their cost in terms of unemployment and human misery – are probably the single most objectionable aspect of capitalism, as Keynes and many others recognized even before the 1930s disaster. Our social and political fabric will not easily withstand the wrenching adjustments that so often punctuated the dynamic progress of laissez-faire capitalism in the 19th century. (Financial) regulation, the lender of last resort function of modern central banks, unemployment insurance, income redistribution and activist fiscal policy are some of the ways in which we have tried to limit the human cost of the best system for sustained wealth creation yet devised.

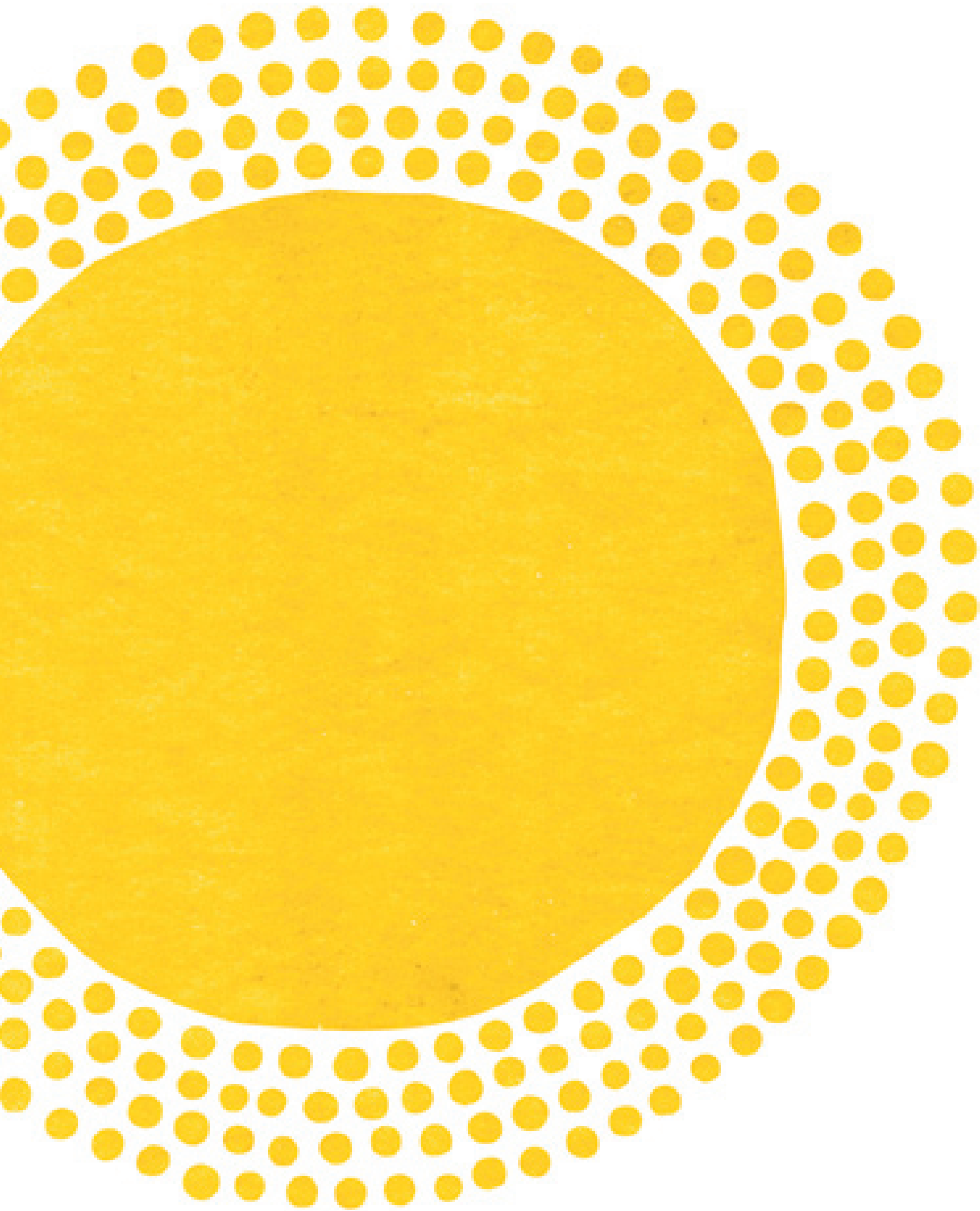
Yet it is also impressive to note how resilient capitalism has been over at least 150 years of periodic upheaval. The best data series we have for very long equity market performance is, not surprisingly, for the USA. And looking at inflation adjusted total returns (dividends plus capital gains) since the mid-19th century shows something quite remarkable: namely that the very long-run trend of real equity returns is apparently around 6% to 6½% per year, and that this tendency has so far survived the most terrible of historic events, including world wars, depressions and social upheaval.

‘It is also impressive to note how resilient capitalism has been over at least 150 years of periodic upheaval.’

It is equally clear, however, that the scale of overshooting either side of this remarkably consistent trend is very large. One standard deviation in this chart is 34% in logs, meaning that when the market is two standard deviations above trend – as it was at the height of the tech bubble – it is some ten years ahead of itself. At the beginning of 2009, the US market was around one standard deviation below trend, and in that sense moderately rather than outstandingly cheap.

That is in particularly sharp contrast to June 1932, when the market troughed some 3.4 standard deviations below trend, cheaper by a large margin than any other period. The other major overshoots to the downside (more than two standard deviations below trend) occurred in 1857, when the banking system all but completely collapsed in the aftermath of World War I, shortly after Pearl Harbor, and following the two oil shocks of the 1970s. Thus one can say that war and/or inflation have been associated with three of the worst equity market overshoots, while a broken credit system following the collapse of a particularly extended or frenetic boom have accounted for the other two.

Conspicuously absent from this list are the great depression of the 1890s, or indeed the 1870s slump. During both of these episodes, the market bottomed around one standard deviation below trend, and in both cases a year or more ahead of the low point in output. Equally relevant perhaps is the observation that, in both 1857 and in the summer of 1931, real equity returns were also around one standard deviation below trend. In both those episodes, it was the final implosion of the banking and credit system that led to the final dramatic overshoot in the equity market itself.



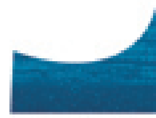
To put it even more simply: the US equity market has only traded at much cheaper levels than it was in late 2008/early 2009 when either the survival of the nation itself, or of its banking system, was under the most serious threat.

This strongly suggests that the key question for investors in 2009 is not "will the recession be long and deep?" (it almost certainly will be), nor whether the relationship between governments and markets is changing (it already is), nor even whether private sector attitudes towards leverage will be profoundly altered by recent events (they surely will be), but rather whether the extraordinary policy measures now underway can gradually stabilize the (global) banking and credit markets, which are themselves arguably already discounting depression.

And yet, for that to happen, governments themselves must remain both credible and creditworthy. If they do, the current crisis – severe as it is – should in the end lay the foundation for a greener global economy and a more sustainable prosperity.

Jonathan Wilmot Chief Global Strategist, Credit Suisse Investment Banking
From *Credit Suisse Global Investment Returns Yearbook 2009,* February 2009, "*Possible Futures*"

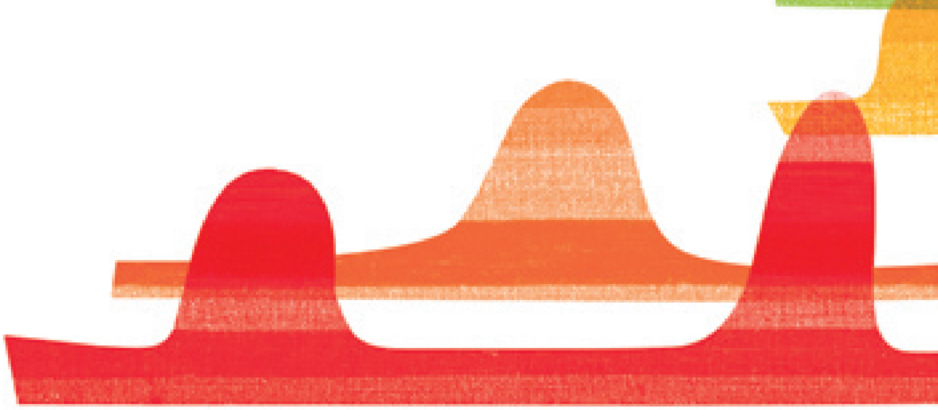
Keeping faith with stocks



Elroy Dimson, Paul Marsh and Mike Staunton

From Credit Suisse Global Investment Returns Yearbook 2009

When equities bottomed in November 2008, the MSCI World index had fallen 55% – a global loss of over USD 21 trillion, or USD 21,000 for every man, woman and child in the developed world. Faith in equities was shaken as investors had been told that stocks offered the best returns. We believe the basic principles remain true – that stocks still offer the best long-term returns despite their volatility – and that investors should keep faith with stocks.



What should we expect from equities? To answer this requires a long-term perspective. A week may be a long time in politics, but even a decade is too short to judge stock returns. Some decades are depressingly poor, while others are tantalizingly good. To understand equity returns, the long term must be long indeed. Fortunately, the Yearbook database meets this test with 109 years of data for 17 countries that together represent some 90% of world stock market value.

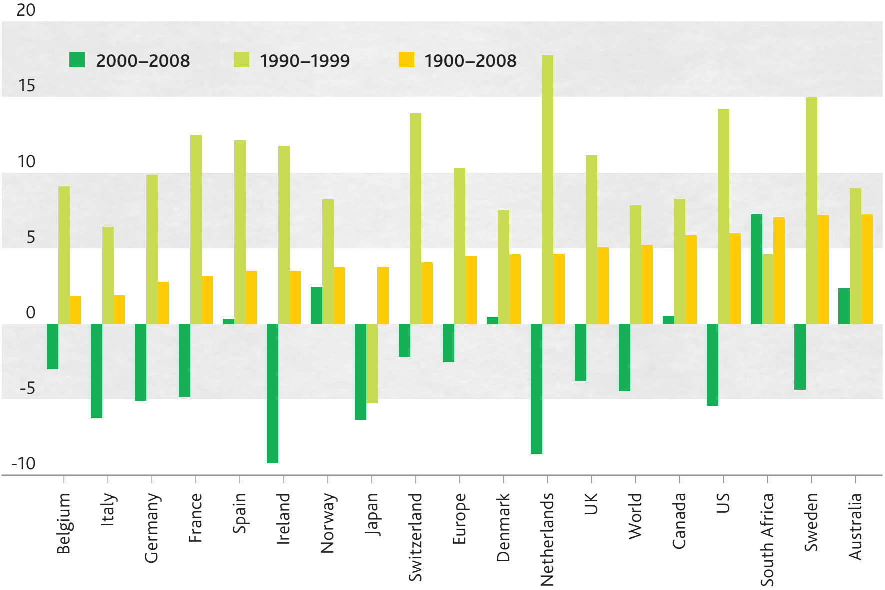
The last decade has been the lost decade. The 21st century began with a savage bear market. By its nadir in March 2003, US stocks had fallen 45%, UK and Japanese equities had halved, and German stocks had fallen by two-thirds. Markets then staged a remarkable recovery, only to plunge again late in 2007 into another epic bear market fuelled by the credit and banking crisis. Since 2000, the MSCI World index has lost a third of its value in real (inflation-adjusted) terms, while the major markets all gave negative real returns of an annualized -4% to -6%.

The demons of chance are meant to be more generous than this. Equity investors require a reward for risk. At the end of 1999, investors cannot have expected, let alone required, a negative risk premium from equities, otherwise they would simply have avoided them. Looking at the nine years that followed does not tell us that risk premiums have decreased, but just that investors were unlucky. Indeed, they received a savage reminder that the very nature of the risk for which they sought a reward means that events can turn out badly, even over multiple years.

Figure 1 shows annualized real returns over three periods for the 17 countries in the Yearbook database. The dark green bars relate to 2000–08. Real returns were negative for the world index and the largest markets, and were negative or close to zero everywhere except Australia, South Africa and Norway. 21st century returns have fallen far short of investors' expectations.

In contrast, the light green bars show that the 1990s was a golden age. Inflation fell from the high levels of the 1970s and late 1980s, lowering interest rates and bond

FIG 1 **Real equity returns around the world in recent periods and over the long run** (%)



Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists*, Princeton University Press, 2002

yields. Meanwhile, expected profits growth accelerated. This led to strong performance from equities (except in Japan), bonds and even bills (see the 2009 Sourcebook).

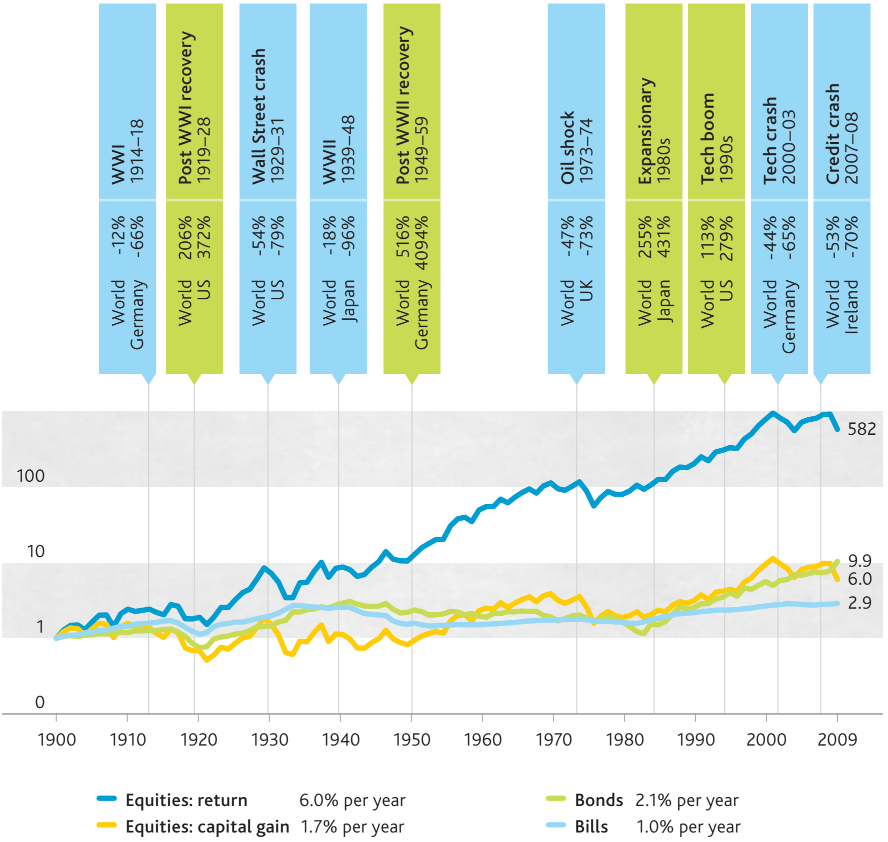
The 1990s contrast starkly with the opening years of the 21st century. Yet the 1990s are just as misleading. Golden ages, by definition, recur infrequently. To understand risk and return in the markets – which is the Yearbook's underlying rationale – we need to examine much longer periods than one, or even two, decades. This is because stock markets are so volatile.

The orange bars in Figure 1 show real returns over our full 109-year backhistory. These returns are much less favorable than those for the 1990s, but equally, they contrast sharply with the poor returns over 2000–08. They demonstrate the more realistic perspective that longer periods of history can bring. They also provide a reassuring reminder that, over the long run, there has been a reward for the higher risk from investing in stocks.

Long run returns and extreme periods

An initial sum of USD 1 invested in US equities in 1900 grew, with dividends reinvested, at an annualized rate of 9.2% per year to become USD 14,276 by the end of 2008. Such is the power – over 109 years – of compound interest, "the most powerful force in the universe" (a phrase incorrectly attributed to Albert Einstein).

FIG 2 **Cumulative returns on US asset classes in real terms, 1900 to 2008**



Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists*, Princeton University Press, 2002

Since US consumer prices rose by almost 25-fold over this period, it is more helpful to compare returns in real terms. Figure 2 shows that an initial investment of USD 1 would have grown in purchasing power by 582 times. The corresponding multiples for bonds and bills are 9.9 and 2.9 times the initial investment, respectively. These terminal real wealth figures correspond to annualized real returns of 6.0% on equities, 2.1% on bonds and 1.0% on bills.

Besides revealing impressive long-run equity returns, Figure 2 also sets the various bear markets of the last century in perspective. Events that were traumatic at the time now appear just as setbacks within a longer-term secular rise. The boxes in Figure 2 highlight the extremes of stock market performance since 1900, both negative (blue boxes) and positive (green boxes).

The blue boxes highlight real equity returns in the World Wars and the four worst bear markets – the Wall Street Crash, the 1973–74 oil shock/world recession, the bursting of the internet bubble, and the credit/banking crash that (for equities) began in earnest in November 2007. They show that the two world wars were less damaging to world equities (real returns of -18% and -12%) than the peacetime bear markets (real returns of -44% to -54%). The worst bear market to date was the Wall Street Crash from 1929 to 1931, when the world index fell by 54% in real, US dollar terms. However, this remains a close call. The peak to trough real return during the current banking/credit crash stands at -53%. If the current remission falters and we hit new lows, it could yet become the worst bear market on record. In its short nine-year life, the 21st century already has the dubious honor of hosting two of the four worst bear markets in history.

The blue boxes in Figure 2 also show real equity returns in the worst afflicted countries in each downturn. Not surprisingly, during the world wars, the losers fared worst. In World War II and its aftermath, Japanese and German equities were decimated, with returns of -96% and -88% respectively, while both US and UK equities enjoyed small positive real returns. Similarly, in each peacetime bear market, the worst hit countries underperformed the world index by 30%–55%. Even in a crash, when correlations rise significantly, global diversification still makes sense.

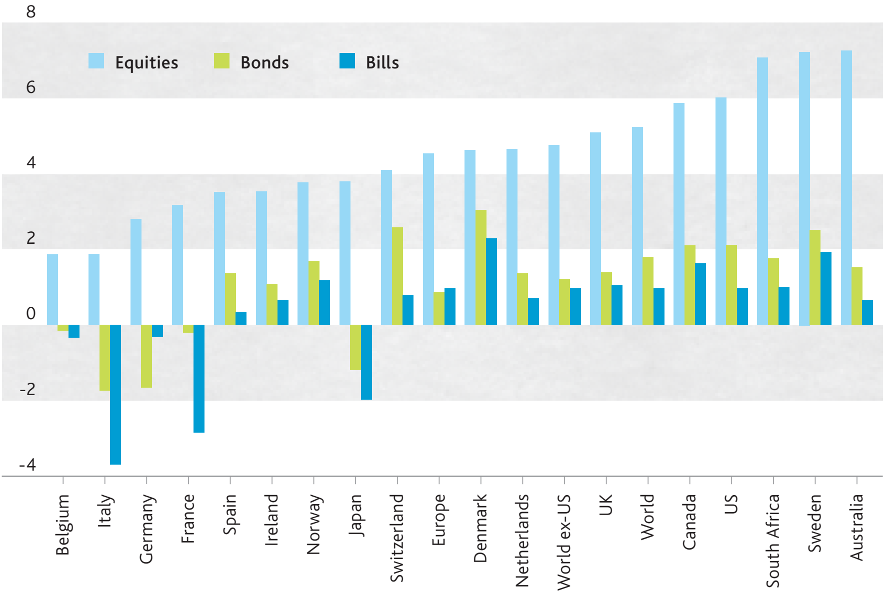
The green boxes in Figure 2 summarize real returns over four "golden ages." The 1990s, which we highlighted in Figure 1, was the most muted of the four, with the world index showing a real return of 113%. The world index rose by appreciably more during the 1980s (255% in real terms) and the two post-world war recovery periods – by 206% in the decade after World War I and 516% from 1949 to 1959. During the latter period, several countries enjoyed staggering returns. For example, in the nascent years of the German and Japanese "economic miracles," real equity returns were 4094% (i.e., 40.4% per year) and 1565% (29.1% per year), respectively.

Long run returns around the world

Until recently, most of the long-run evidence cited on historical asset returns drew almost exclusively on the US experience. This gives rise to a serious danger of "success" bias, since in the 20th century, the United States rapidly became the world's foremost political, military, and economic power. By focusing on the world's most successful economy, investors could gain a misleading impression of equity returns elsewhere, or of future equity returns for the USA itself.

The Yearbook now allows us to make global comparisons. Figure 3 shows annualized real equity, bond and bill returns over the last 109 years for the 17 Yearbook countries plus the world index, the world ex-US, and Europe, ranked in ascending order of equity market performance. The real equity return was positive in every location,

FIG 3 **Real returns on equities, bonds and bills internationally, 1900 to 2008** (%)



Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists*, Princeton University Press, 2002 typically at a level of 3%–6%. Equities were the best performing asset class everywhere. Furthermore, bonds beat bills everywhere except Germany. This overall pattern of equities beating bonds, and of bonds outperforming bills, is precisely as we would expect, since equities are riskier than bonds, while bonds are riskier than cash.

Figure 3 shows that, while in most countries bonds gave a positive real return, five countries experienced negative returns. The latter were also among the worst equity performers. Mostly, their poor performance dates back to the first half of the 20th century, and these were the countries that suffered most from the ravages of war and civil strife, and from periods of high or hyperinflation, typically associated with wars and their aftermath.

As we conjectured, Figure 3 confirms that the USA performed well, with real equity and bond returns of 6.0% and 2.1% per year, respectively, placing it in fourth position for both asset classes. But while US stocks performed well, the USA was not the top performer, nor were its returns especially high relative to the world averages. Many of the best performing equity markets over the last 109 years tended to be resource-rich and, quite often, New World countries.

> **Over the long run, investment in equities has proved rewarding, but has been accompanied by significant volatility.**

The historical equity risk premium

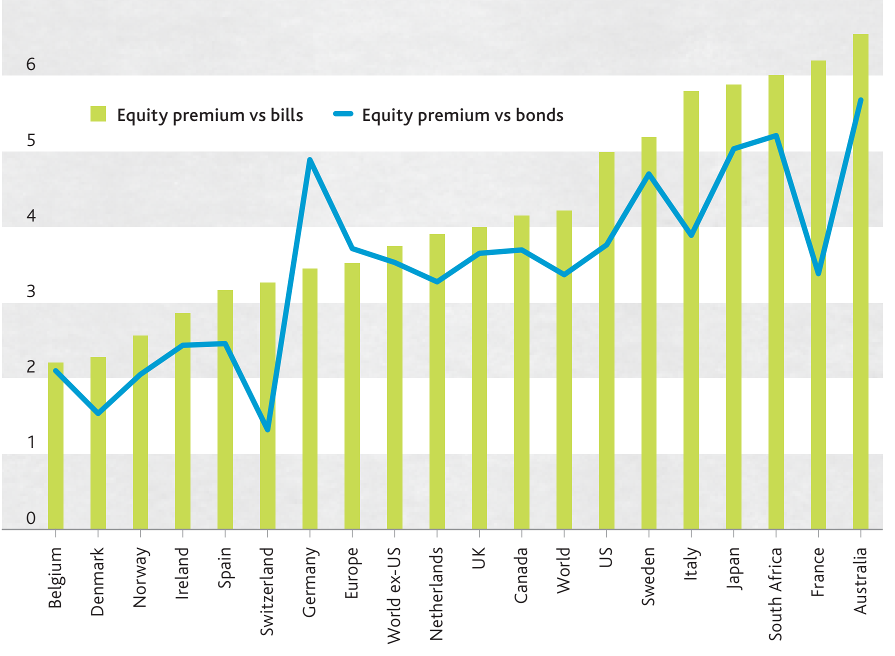
Over the long run, investment in equities has proved rewarding, but has been accompanied by significant volatility. Investors dislike volatility and they will invest in equities only if they expect compensation for this risk. What we would really like to know is what risk premium investors require today, as this determines current valuations and future expected returns. Sadly, there is no reliable way of observing this, but what we can do is measure the risk premium that investors have obtained in the past.

We measure the historical equity premium by comparing past equity returns with the return on risk-free investments. Some people use treasury bills (very short-term, default-free, government securities) as the risk-free benchmark, while others use long-term government bonds. We prefer treasury bills, as bonds are subject to uncertainty about future inflation and real interest rates.

Figure 4 shows the annualized historical equity premiums from 1900 to 2008, with countries ranked by their premium relative to bills, displayed as bars. The annualized premium, relative to bills, was 5.0% for the USA, 3.7% for the world ex-US and 4.2% for the world. The line-plot shows the premium relative to bonds. The story here is similar, although the premiums are on average 0.8% lower since this is the amount by which bonds outperformed bills. The annualized premium relative to bonds was 3.8% for the USA and 3.4% for the world.

Investors' beliefs about the equity premium remain heavily influenced by Ibbotson Associates' numbers for the United States based on data starting in 1926. The premiums shown in Figure 4 are lower than had previously been thought, because of our global focus and longer time frame.

FIG 4 **Worldwide annualized risk premiums relative to bills and bonds, 1900 to 2008 (%)**



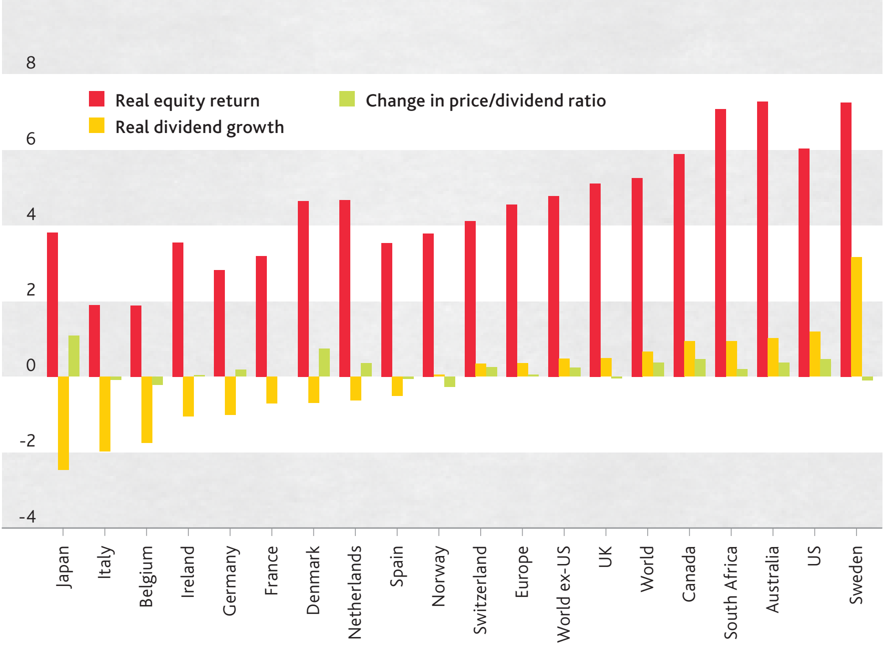
Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists,* Princeton University Press, 2002

Risk premium components

Is the historical equity premium a good guide to what investors expected and priced in beforehand as their required compensation for risk? Because equities are so volatile, we cannot be sure of this, even over periods as long as 109 years. Investors may have enjoyed more than their share of good luck, making the past too good to last. If so, the historical premium would reflect "the triumph of the optimists" – the success of equity investors – and overstate what we could expect in future.

An alternative approach is to delve deeper to infer what investors in each country were expecting, on average, in the past. We do this by decomposing the historical premium into three major components, namely, (i) the (geometric) mean dividend yield

FIG 5 **Real dividend growth around the world, 1900 to 2008 (%)**



Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists*, Princeton University Press, 2002

net of the real risk free rate, (ii) the annualized growth rate of real dividends, and (iii) the annualized change in the price/dividend ratio over time.

Of these three, the dividend yield has been the dominant factor historically. This may seem surprising, since day-to-day, investors seem focused on capital gains and stock price movements. Indeed, over a single year, equities are so volatile that most of an investor's return comes from capital gains or losses, with dividends adding a relatively modest amount.

However, reinvested dividends dominate long-run returns. Looking back at Figure 2, we can see the large difference in terminal wealth that arises from reinvested income. The darker blue line shows the total return from a policy of investing USD 1 in

US stocks at the start of 1900, and reinvesting all dividend income. It shows that, 109 years later, the initial investment would have grown in purchasing power by 582 times, giving a total real return of 6.0% per year.

The orange line shows the return obtained by a fund that paid out all of its income to beneficiaries, rather than reinvesting dividends. This line shows that the USD 1 initial investment would have grown to just six times its initial value, equivalent to a real capital gain of 1.7% per year. Thus a portfolio of US equities, with dividends reinvested, would have grown to almost 100 times the value it would have attained if the investor had spent or squandered the dividends.

The longer the investment horizon, the more important is dividend income. For the seriously long-term investor, the value of a portfolio corresponds closely to the present value of dividends. The present value of the (eventual) capital appreciation dwindles greatly in significance.

The other two major components of the equity premium are the growth rate of real dividends and the change in the price/dividend ratio. The orange bars in Figure 5 show annualized real dividend growth from 1900 to 2008, with countries ranked in ascending order from left to right. They reveal that real dividend growth has been lower than is often assumed. Real US dividends grew at an annualized rate of just 1.2%, but this was enough to place the USA in the second highest position. Most countries recorded real dividend growth of less than 1% per year, and dividend growth for the world index was only 0.65%. Dividends and, probably, earnings have barely outpaced inflation. The final contributor to the equity risk premium is changes in valuation ratios, but the green bars in Figure 5 show that the importance of this can also be overstated. Over the last 109 years, the price/dividend ratio of the world index grew by just 0.36% per year.

Investors' expectations

Figure 4 showed that the annualized historical risk premium relative to bills on a globally diversified equity portfolio (the world index) was 4.2%. This comprises 3.2% for the amount by which annual dividends exceeded the real risk free rate, 0.65% per year from real dividend growth and 0.36% per year from re-rating, i.e., an increase in the price to dividend ratio. Using this decomposition, we can now return to the question of whether 4.2% was what investors required/expected in advance. Our analysis (see the Sourcebook for details) indicates that part of this amount arises from past good fortune and factors that are unlikely to recur.

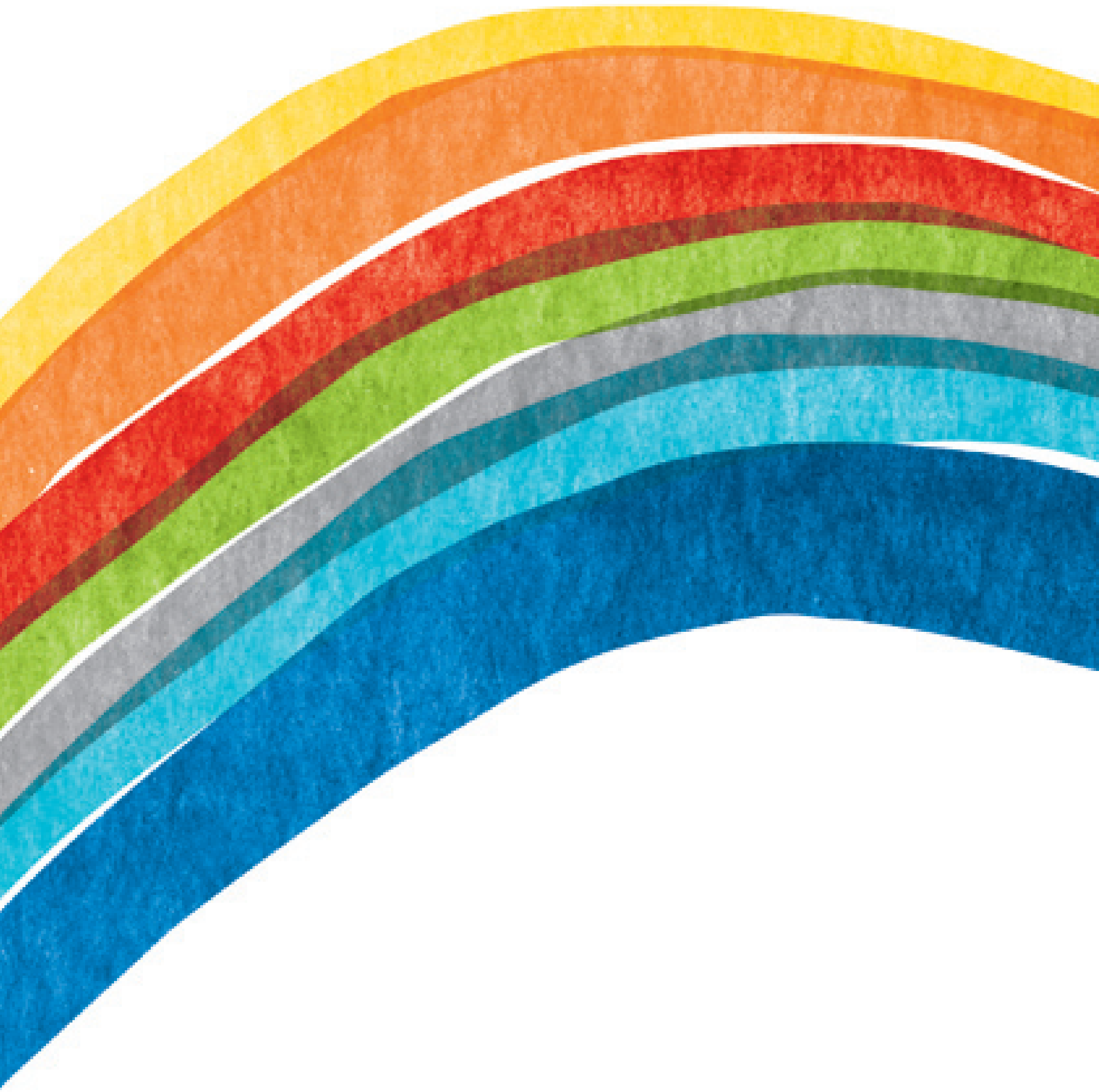
> **The longer the investment horizon, the more important is dividend income.**

For example, the gradual re-rating of equities over the last century reflects – at least in part – reduced investment risk. In 1900, most investors held a limited number of domestic stocks from a few industries – railroads then dominated. As the century evolved, new industries emerged, diversified closed- and open-ended funds appeared, liquidity and risk management improved, and institutions and wealthy individuals invested globally. As equity risk became more diversifiable, the required risk premium is likely to have fallen. This will have driven stock prices higher, but it would be perverse to interpret this rise as evidence of an increased risk premium. Furthermore, insofar as stock prices rose because of disappearing barriers to diversification, this phenomenon is non-repeatable and we should not expect such re-rating to persist.

Similarly, our analysis indicates that dividend growth turned out to be higher than expected. The 20th century opened with much promise, and only a pessimist would have believed that the next 50 years would involve widespread civil and international wars, the Wall Street Crash, Great Depression, episodes of hyperinflation, the spread of communism, and the start of the Cold War. During 1900–1949, the annualized real return on the world equity index was 3.5%. By 1950, only the most rampant optimist would have dreamt that over the following half-century, the annualized real return would be 9.0%. Yet the second half of the 20th century was a period when many events turned out better than expected. There was no third world war, the Cuban missile crisis was defused, the Berlin Wall fell, the Cold War ended, productivity and efficiency accelerated, technology progressed, and governance became stockholder driven. The 9.0% annualized real return on world equities from 1950 to 1999 almost certainly exceeded expectations and more than compensated for the poor first half of the 20th century.

This type of reasoning coupled with more formal analysis leads us to conclude that the 4.2% per year historical equity premium on the world index exceeded expectations, and was higher than the premium investors required in advance. After adjusting for non-repeatable factors, we infer that investors expect an annualized equity premium (relative to bills) of around 3%–3.5%. This is below the long run historical premium and well below the premium in the second half of the 20th century. Many investment books still cite figures as high as 7%, but investors who rely on such numbers are likely to be disappointed.

'Equity investors can expect to be more than 40% richer relative to investing in cash over a 10-year horizon, and twice as rich over 20 years.'

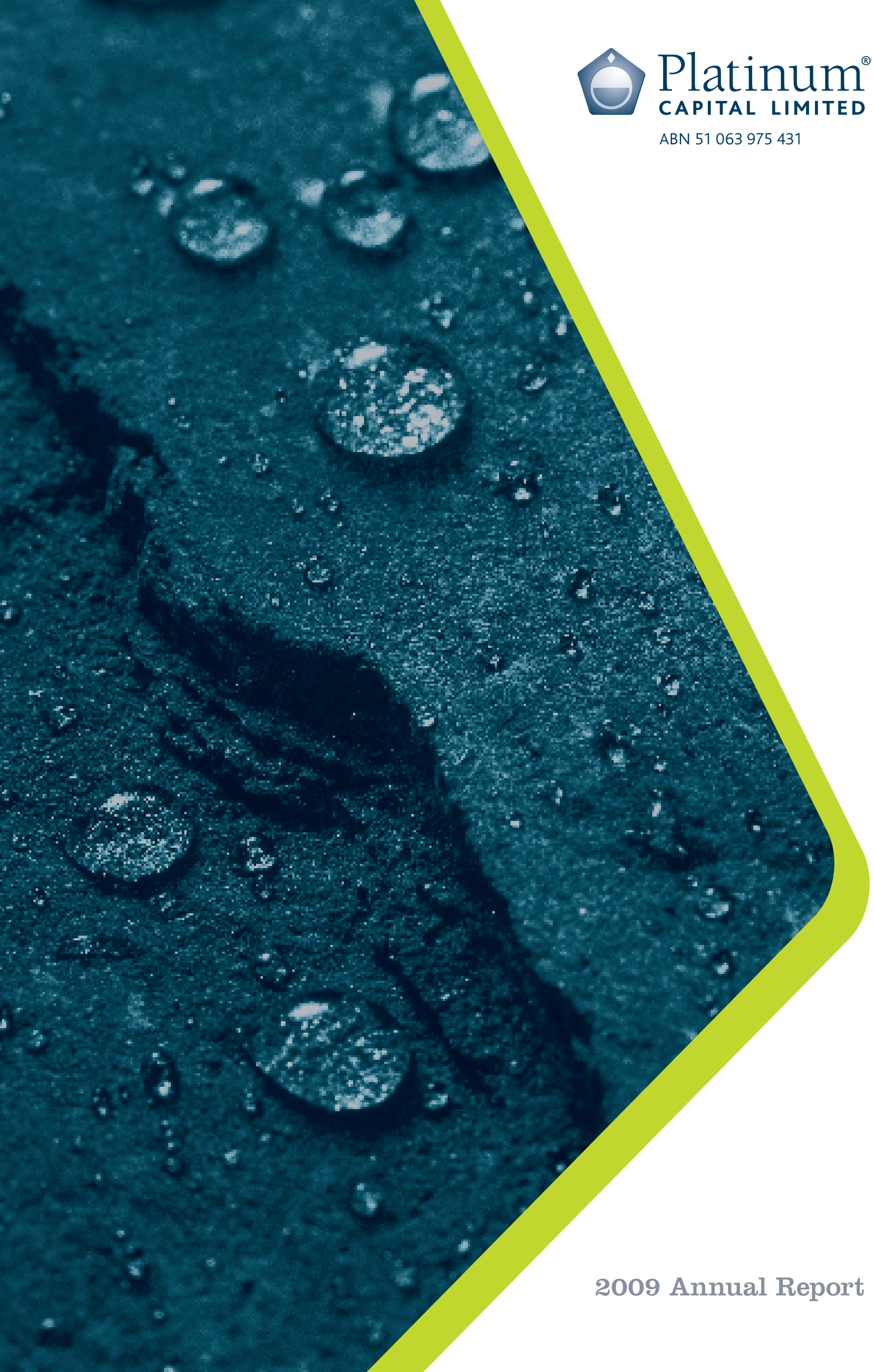


Nevertheless, even with a lower equity risk premium of 3.5% per year, equity returns still compound rapidly. Equity investors can expect to be more than 40% richer relative to investing in cash over a 10-year horizon, and twice as rich over 20 years. This represents a substantial premium that should encourage investors not to lose faith in equities.

However, while investors should keep faith with stocks, they should not harbor fantasies of an immediate return to either previous (and with hindsight, unrealistic) market levels, or to previous high rates of return. Markets are likely to take a long time to recover from the battering they have received during the credit and banking crisis.

In spite of this, we are confident that equity investors should continue to expect an appreciable long-run risk premium, albeit a somewhat smaller one than historically. We were spoiled by the high returns of the 1980s and 1990s, when equities seemed a sure fire route to getting rich quickly. Today, as we look ahead, while we should expect to enrich ourselves from equities, the process is likely to be one of getting rich more slowly. However, this does not mean getting steadily richer. Equity returns are far from steady – they are very volatile. Markets will not get to their higher destination smoothly: returns could easily come in short bursts rather than gently over time. We need to take a long-term view, and be ready for the inevitable periodic setbacks, which can be severe, while recognizing that there are risks to being out of equities as well as in.

Elroy Dimson, Paul Marsh and Mike Staunton London Business School
From *Credit Suisse Global Investment Returns Yearbook 2009,* February 2009, "*Keeping faith with stocks*"



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

2009 Annual Report

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Bruce Coleman
Richard Morath
Bruce Phillips
Kerr Neilson
Andrew Clifford
Malcolm Halstead

Secretary

Malcolm Halstead

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Securities Exchange Listing

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

Website

http://www.platinumcapital.com.au

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

Contents

Chairman's Report

Investment Performance

In the year ending on 30 June 2009, Platinum Capital's net asset value increased by 18.4% pre-tax and by 14.2% after allowing for all tax liabilities, both realised and unrealised. For a comparison the benchmark Morgan Stanley Capital Index fell 16.1% for the 12 months.

This good short-term performance made a useful contribution to our very satisfactory long-term and medium-term out-performance of both the world index and of the Australian index.

Since its inception in 1994 the compound annual appreciation of the Company's assets on a pre-tax basis has been 13.7% compared to the return from the MSCI of 4.2%. The comparable return from the Australian All Ordinaries Accumulation Index has been 8.9% annually over the 15 years.

Platinum Capital Limited – Pre-Tax NAV Return versus MSCI Index (%)

	1 YEAR	3 YEARS (COMPOUND PA)	5 YEARS (COMPOUND PA)	SINCE INCEPTION (15 YEARS COMPOUND PA)	SINCE INCEPTION (CUMULATIVE)
PCL	18.4	1.1	5.1	13.7	589.6
MSCI*	-16.1	-9.6	-1.9	4.2	86.6

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

Corporate Governance – International Accounting Standards

The Annual Report is prepared under Australian International Financial Reporting Standards. Under the Standards, realised profits and losses are added to or reduced by changes in the market value of the Company's total assets. As regards Investment Companies operating in volatile markets, this can lead to large variations in reported profits from any one year to the next.

In the opinion of your Directors the longer-term movement of asset values, combined with the flow of dividends, is a better measure of performance.

Dividends

A fully franked final dividend of 5 cents per share is proposed, making 10 cents for the full year as against 10 cents in the previous twelve months. We continue with our policy of smoothing dividend payouts.

Outlook for 2009-2010

The Investment Manager is of the opinion that "it is likely to be several years before the consequences of the credit crisis have fully played themselves out". With such an uncertain background, it is impossible to forecast profit a year ahead.

Corporate Actions

In the 2008/2009 year the Company undertook a 1:1 renounceable rights issue at \$1.07 per share to take advantage of opportunities to invest in securities we regarded as undervalued. The issue raised \$17.5mn. This was the first rights issue the Company has undertaken since its formation in 1994.

In response to shareholders' requests we also introduced a Share Purchase Plan ("SPP") which enabled us to issue stock at slightly below market price and free of brokers' commission.

Finally

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

I wish to pay particular tribute to the late Graeme Galt, who served us well for seven years.

Peter Clarke

Chairman

Investment Manager's Report 30 JUNE 2009

Performance

The mood of investors brightened as the realisation set in that the downward spiral of economic activity, attributable to massive but short-lived de-stocking, would be arrested by concerted government deficit spending. The measures adopted are unprecedented with huge government transfers augmenting incomes and massive asset purchases greatly assisting the resuscitation of bank and company balance sheets. The spreads on corporate paper shrank while money moved away from government bonds towards higher risk assets.

World stock markets came tearing out of the blocks in the second quarter led by emerging markets. Countries such as India, Indonesia and China were particularly strong, being identified as having less vulnerability to external factors than the developed economies. In the earlier sell-off these same markets had borne the brunt of selling as fund managers, and hedge funds in particular, sought to raise cash in the context of ever dwindling pools of liquidity. The developed markets were also lively with those industries most adversely affected in the preceding quarter, such as financials, home builders and other economically sensitive companies, recovering the most. The trading floor describes this as 'putting the risk trade back on!' but, interestingly, after the initial surge in April there was a flattening out as the quarter progressed.

Platinum Capital Limited has performed very strongly due to successful stock picking and heavy exposure to Asia. In fact, in each geographic area we outperformed the index by a handsome margin, although we surrendered some of that gain to losses made on shorts. Overall the Company outperformed the MSCI by 7.6% for the quarter, 15.8% for the six months and 34.5% for the year.

In absolute terms, our net assets rose by 12.7% (pre-tax) for the quarter, 9.9% for the six months and 18.4% for the year.

MSCI* World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Financials	20%	-21%
Materials	10%	-33%
Industrials	7%	-22%
Consumer Discretionary	6%	-6%
Information Technology	4%	-7%
Energy	2%	-29%
Utilities	-1%	-16%
Consumer Staples	-1%	2%
Telecommunications	-3%	-9%
Health Care	-6%	2%

* Morgan Stanley Capital International
Source: MSCI

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

30 APRIL 2009	31 MAY 2009	30 JUNE 2009
128.01	131.48	132.58

Source: Platinum

Investment Manager's Report CONTINUED

Currencies

The A$ has been a star performer since the beginning of 2009. The ideal position would have been to be fully hedged back into the A$ out of the Yen, US$ and Euro. In the six months to 30 June 2009 the A$ appreciated by 26%, 23% and 13% respectively against these currencies.

We at Platinum have been far too conservative, believing that Australia's overseas obligations would weigh heavily on the exchange rate even though our government's total net indebtedness is negligible and our banks are relatively sound. As a consequence we held only about 30% in the A$. By the end of the quarter, we had reduced this further to 24% of the portfolio, the concern being that as the pro-growth trade loses momentum the A$ will lose some support. Our disposition of currencies is shown in the table below.

Currency Position

REGION	JUN 2009
Europe (Euro, Norwegian kroner)	26%
Australia	24%
Asia (HK dollar, Taiwanese dollar, Korean won etc)	22%
North America	14%
Japan	13%
Other	1%

Source: Platinum

Shorting

We entered the quarter with the lowest short position for years and, happily, the defensive names that constituted the bulk of our shorts barely moved up as investors used them as funding to purchase more economically sensitive entities. As this occurred, we began to shift the positions out of the defensives into more cyclical stocks, the latter having been significantly up-valued in relation to defensives. We further believed that in the current uncertain climate the defensives would continue to gain support.

At quarter end our shorts represent 18% of the portfolio and are mainly in economically sensitive companies.

Changes to the Portfolio

Geographical Disposition of Platinum Assets

REGION	JUN 2009	MAR 2009
Japan	24%	24%
Asia and Other	23%	25%
Europe	21%	21%
North America	20%	21%
Cash	12%	9%
Shorts	18%	19%

Source: Platinum

There is not much overall change in the portfolio as our transactions have been largely in smaller holdings. Several purchases that were made into the teeth of the sell-off subsequently climbed sharply and were reversed. These included China Mengniu Dairy, which we described in March regarding melamine contamination and which then doubled, Wumart (China retail), Mosaic (fertiliser), Metso (plant engineering), Corning (substrate glass and poly silicon) and Rohm (analog chips). The proceeds were redirected into our larger holdings. The top 20 holdings now account for nearly 37% of our longs.

A large company with very interesting prospects that was added, is China Resources Enterprise. This is a Hong Kong listed subsidiary of a state owned enterprise (SOE) with diverse interests in supermarkets and hypermarkets, beverages (beer and bottled water), rented commercial property and infrastructure. The businesses that caught our attention were retailing and beer. Both have been increasing sales in the high teens and profits are starting to follow. Each area is highly competitive and we have reservations about the business acumen of many SOEs. However, the group has teamed up with a highly experienced partner in beer, namely SABMiller, while in retailing they are following a model of trying to dominate specific regions, and with the help of experts lured from experienced international competitors, seem to be building a successful business. The company is not a complete gift being priced on about 17 times this year's earnings and 1.5 times book, yet the profit potential of its consumer businesses is alluring.

Investment Manager's Report CONTINUED

Platinum Capital Limited – Top 20 Stocks

STOCK	INDUSTRY	JUN 09
Microsoft	Technology	3.6%
Mitsubishi UFJ Financial	Financial	3.3%
Cisco Systems	Technology	2.3%
Siemens	Electrical	2.2%
Denso Corp	Auto	2.0%
Hutchison Whampoa	Telco/Transport	2.0%
Bangkok Bank	Financial	1.9%
Henkel	Consumer Goods	1.9%
Henderson Land Development	Property	1.8%
Anglogold Ashanti	Gold	1.7%
Samsung Electronics	Electrical	1.7%
Sumitomo Real Estate Sales	Property	1.7%
Micron Technology	Technology	1.5%
Kanto Denka Kogya	Chemicals	1.4%
En-Japan Inc	Technology	1.4%
Sanofi-Aventis	Health Care	1.3%
International Paper	Paper	1.3%
Merck & Co	Health Care	1.3%
BMW	Auto	1.3%
Veolia Environnement	Utility	1.3%

Source: Platinum

Commentary

Being conscious of the fact that most readers have probably had their fill of media coverage of the "world economic crises", we will try to follow a different course. Before we do, though, let's remind ourselves of important observations made in our earlier communications:

- We are in uncharted water and cannot know how the individual will respond to the uncertainties.
- The fiscal and monetary response by a host of nations is unprecedented in scale and scope and is partially experimental.
- The de-stocking cycle that probably bottomed-out in the first quarter of 2009 led to unbounded fear, even panic, and this was expressed in a collapse in the valuation attributed to risk assets; shares, commercial paper and property.
- While reassuring, the recent rally in risk assets does not necessarily mean the system is healed and the pattern of the last thirty years is about to resume. As we noted last quarter, the banks are mostly bereft of equity, aggregate corporate profits had reached extreme levels world-wide and trade imbalances are at huge and probably unsustainable levels.
- Those countries with strong fiscal balances and high savings are likely to recover the quickest.

As we write, the conventional view is that the emerging countries of the world are best placed to drag the "world train" out of the shunting yard.

Among the people we met in Beijing on a recent trip to China was a well-regarded Chinese economist who had served the IMF in various postings around the world. He felt the stimulus package of Rmb 4 trillion, some 25% of GDP, together with the massive growth in bank lending, up 30% year-on-year in the first six months of 2009, would allow China to decouple from the industrialised countries. Also, that the changing destination of Chinese exports to Asia, Africa and Latin America would compensate for weak demand elsewhere.

Investment Manager's Report CONTINUED

When talking about prospects for growth, among the other BRIC (Brazil, Russia, India and China) economies he argued that India's prospects were sub-par on account of its inadequate infrastructure. This notion has great appeal for those who go to India frequently, as we do, but it depends on your "perspective". While true at first sight, it remains a fact that India has a strong judicial system, cumbersome and creaky though it may be, and a representative system of government. This is still a dream for China. Whether a modern capitalist economy needs representative government is for readers to judge but what is surely not in dispute is the need for a sound judicial system.

This difference in perspective recurred on several occasions during our ten day visit. The most striking was the meeting with investor relations representatives from China South Locomotive and Rolling Stock Corp (CSR). This recently listed SOE, together with its still unlisted northern twin, the CNR, are principal beneficiaries of the massive infrastructure programme just launched by the Central Government. Sadly for us, the meeting started on the wrong foot when we asked why we should share the general enthusiasm for the company's profit prospects. Closer inspection of the presenter's business card would have revealed that apart from being a board member he was also head of the CPC department of propaganda. Our lack of perspective worsened when we persisted in delving into the terms and conditions under which foreign giants like Siemens are required to transfer their technology in order to gain market access. Not that we are unsympathetic to a reversal of roles harking back to the days of the treaty ports[1], but the divergence of views on protectionism and selection on grounds other than commercial merit was a source of friction. Our final opinion was that there will be a lot of trains built but that the sort of profits the brokers are projecting are probably unrealistic.

With the banks having been instructed to lend copiously, credit is exploding in China, in marked contrast to the developed world where credit growth is slowing, notwithstanding government urging, and delinquencies have reached record levels. Interestingly, anecdotal evidence from those Chinese who do not face the daily chatter of markets, fear that this will lead to inflation. Property speculation is snowballing into a frenzy. As in Hong Kong, land development in China requires the payment of a development premium governed by size of the approved floor space (square metres built). The price

1 Generally accompanied by military superiority/victories in the nineteenth century, the Western powers entered into unequal treaties in countries such as Japan, Korea and China to gain access to their markets.

levels of recent land sales in Beijing are astounding observers. In the most recent auction, a site close to the fourth ring road[2] went for Rmb 15,000 per m^2. Considering that building costs of medium grade residential property are approximately Rmb 4,000 per m^2, the bidder, an SOE, is evidently relying on substantial price appreciation in order to break even. The same pattern is occurring in the other major cities and there is a massive revival of interest in the Hong Kong property scene[3].

The most encouraging aspect of this development activity is the insistence by the authorities that development is accompanied by ample green space calculated at 60% of each site area. This is resulting in Beijing being an unusually green metropolis. Few modern cities have achieved such a balance and each time one visits Beijing one is reminded of the success of the town planners in having embedded the amenities that are rare in great conurbations. Our accompanying broker thought it was a waste of good building space, another example of the differences in the way of looking at things.

Outlook

Markets have rallied strongly in response to the realisation that the world is no longer looking over the edge of an abyss but this does not alter the fact that a resumption of a high level of economic growth will remain a challenge for most Western countries. The emerging economies will probably do somewhat better though burdened by weaker exports. With this in mind we are puzzled by the strength of commodity markets and believe they are being driven by short-term anomalies which include strategic stockpiling in a world where most currencies are suspect.

Coming off a severely depressed base, profits will improve but utilisation levels are unlikely to be strong, meaning that a recovery to the super profits of earlier years is highly unlikely. The most encouraging aspect of all this uncertainty from our point of view is that there are now plenty of opportunities to find companies that are priced below their potential. Such investments are not confined to those areas of the world

2 The fourth ring road built in 2001 is about 8kms from Tiananmen Square. The farthest complete ring around the city is the sixth ring, about 18kms from the centre.

3 Top end residential property in both Shanghai and Beijing is certainly no longer cheap with prize locations, say within the second ring road in Beijing, selling for Rmb 50 to 60,000 per m^2; over A$10,000 per m^2. This contrasts with the average residential selling price recorded in the first five months of 2009 of Rmb 4,450 m^2 for China as a whole and around Rmb 11,300 per m^2 for the first tier cities of Beijing, Shanghai, and Shenzhen in the New Territories. The average for Hong Kong is HK$45,000 per m^2 and the top end is 3 to 5 times this figure.

Investment Manager's Report CONTINUED

that are likely to grow strongly. There are many companies that, while registered as having their head offices in Europe or America, in fact derive a great part of their profit from emerging economies. Their share prices sometimes do not reflect this fact.

We have adopted a relatively cautious stance and are delighted at the price at which we can acquire companies of unusual quality that are relatively low risk. We have identified a number of companies well placed to benefit from the stimuli to the system afforded by central bank largesse and government infrastructure spending.

It is likely to be several years before the consequences of the credit crisis have fully played themselves out. With an earthquake of such magnitude it would be surprising if there were not after-shocks. We will use shorts to exploit the anomalies that are being created by those investors who believe that it was all a bad dream and that the system is nearly fully repaired.

Whether or not matters turn out better than we presently believe, we feel those companies geared to world growth will achieve results superior to those with essentially defensive qualities.

Kerr Neilson
Managing Director

09 Financial Statements

Platinum Capital Limited

Shareholder Information

Substantial Shareholders

No shareholders appeared in the Company's Register of Substantial Shareholders, maintained in accordance with section 671B of the *Corporations Act 2001*, as at 4 August 2009.

Distribution of Securities

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	855
1,001 – 5,000	3,371
5,001 – 10,000	2,683
10,001 – 100,000	3,624
100,001 and over	96
Total number of holders	10,629
(ii) Number of holders of less than a marketable parcel	338
(iii) Percentage held by the 20 largest holders	12.44%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of listed equity securities as at 4 August 2009 are listed below:

	NUMBER OF SHARES	%
Forbar Custodians Limited	2,332,280	1.57
Groote Eylandt Aboriginal Trust Incorporated	1,753,416	1.18
K Neilson	1,648,038	1.11
Moya Pty Limited	1,412,005	0.95
UBS Wealth Management Australia Nominees Pty Limited	1,356,483	0.91
Questor Financial Services Limited	1,353,456	0.91
R I Thompson	1,127,536	0.76
RBC Dexia Investor Services Australia Nominees Pty Limited	976,476	0.66
J P Morgan Nominees Australia Limited	894,151	0.60
HSBC Custody Nominees (Australia) Limited	863,784	0.58
R Ware	643,682	0.43
Feboco Investments Pty Limited	616,613	0.41
R Thompson	600,000	0.40
I T Heffernan Pty Limited	525,000	0.35
Australian Executor Trustees Limited	511,570	0.34
Questor Financial Services Limited	485,315	0.33
RBC Dexia Investor Services Australia Nominees Pty Limited	390,674	0.26
The Uniting Church in Australia	387,000	0.26
ANZ Nominees Limited	346,385	0.23
Invia Custodian Pty Limited	298,000	0.20

Shareholder Information CONTINUED

Voting Rights

Ordinary Shares

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

Platinum's Commitment to Carbon Neutrality

The Manager continues to report that it is carbon neutral (as is your Company), having purchased carbon credits to offset its carbon emissions. The Manager continues to strive toward further reductions.

Distribution of Annual Report to Shareholders

The Law allows for an "opt in" regime in which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to mail out the 2009 Annual Report to all shareholders, unless they have "opted out". This position will be kept under review. Please communicate your views to the Company Secretary by email to invest@platinum.com.au.

Financial Calendar

Annual General Meeting	23 October 2009
Ordinary Shares trade ex-dividend	28 October 2009
Record (books close) date for final dividend	4 November 2009
Final dividend paid	17 November 2009

These dates are indicative and may be changed.

Questions at AGM

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

Investment Methodology

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

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

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

Platinum Asset Management seeks a broad range of investments 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 2009, 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 for the whole year and up to the date of this report (unless otherwise stated):

Peter Clarke	(Chairman since 16 February 2009 and Non-Executive Director)
Bruce Coleman	(Non-Executive Director)
Bruce Phillips	(Non-Executive Director since 10 March 2009)
Richard Morath	(Non-Executive Director since 27 March 2009)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Director)
Malcolm Halstead	(Director and Secretary)

Graeme Galt was Chairman of the Company and a Non-Executive Director until his passing on 13 February 2009.

Principal Activity

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

Trading Results

The net profit of the Company for the year was $20,567,000 (2008: net loss $23,861,000) after income tax expense of $9,162,000 (2008: income tax benefit $10,419,000).

Dividends

Since the end of the financial year, the Directors have recommended the payment of a 5 cents per share ($7,438,000) fully franked final dividend payable to shareholders on 17 November 2009.

A fully franked interim dividend of 5 cents per share ($7,353,000) was paid on 6 March 2009.

A fully franked final dividend of 5 cents per share ($6,358,000) for the year ended 30 June 2008 was paid on 14 November 2008.

Review of Operations

The net profit before tax was $29,729,000 (2008: net loss before tax $34,280,000) and net profit after tax was $20,567,000 (2008: net loss after tax was $23,861,000). Income tax expense for the year was $9,162,000 (2008: income tax benefit $10,419,000).

Changes in the State of Affairs

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

Events Subsequent to the End of the Financial Year

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

Likely Developments and Expected Results of Operations

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

Rounding of Amounts

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

Environmental Regulation

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

Auditor

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

Directors' Report CONTINUED

Non-Audit Services

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

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

	2009 $	2008 $
Audit services – statutory	**85,934**	84,319
Taxation services – compliance	**38,790**	42,903
Taxation services – foreign tax agent	**4,611**	9,139
Total	**129,335**	136,361

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 27.

Information on Directors

Peter Clarke BSC (ECON)

Chairman of the Company since 16 February 2009, Independent Non-Executive Director for ten years and member of the Audit and Risk Committee. (Age 73)

Relevant interest in 26,096 shares in the Company.

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

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director for five years and member of the Audit and Risk Committee. (Age 59)

Relevant interest in 200,000 shares in the Company.

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, FIA, ASIA
Independent Non-Executive Director and Chairman of the Audit and Risk Committee. (Age 60)

Mr Morath has over 35 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 a 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. 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.

Bruce Phillips BSC (HONS)
Independent Non-Executive Director and member of the Audit and Risk Committee. (Age 54)

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 Australian Worldwide Exploration Limited in 1997 and was its Managing Director until 2007 and was a Non-Executive Director of Sunshine Gas Limited from 2007 to 2008. Since 2007, Mr Phillips has been a Non-Executive Director of AGL Energy Limited.

Kerr Neilson BCOM (UCT), ASIP
Managing Director for 15 years. (Age 59)

Relevant interest in 1,648,039 shares in the Company.

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

Directors' Report CONTINUED

Andrew Clifford BCOM (HONS) (UNSW)
Director for 15 years. (Age 43)

Relevant interest in 1,412,006 shares in the Company.

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

Malcolm Halstead CA
Finance Director and Company Secretary for 15 years. (Age 51)

Relevant interest in 414,607 shares in the Company.

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

Directors' Meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2009.

	BOARD MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS	
NAME	HELD WHILE A DIRECTOR	ATTENDED	HELD WHILE A MEMBER	ATTENDED
P Clarke	6	5	4	4
B Coleman	6	6	4	4
R Morath (appointed 27 March 2009)	2	2	1	1
B Phillips (appointed 10 March 2009)	2	2	1	1
K Neilson	6	4	–	–
A Clifford	6	6	–	–
M Halstead	6	6	–	–
G Galt (until 13 February 2009)	4	2	3	2

Remuneration Report (audited)

Principles used to determine the nature and amount of remuneration

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

Directors' fees

Non-Executive Directors' base remuneration is reviewed annually.

Retirement benefits for Directors

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

Other benefits (including termination) and incentives

No other benefits and incentives are paid to Directors.

Details of Remuneration

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

NAME	SHORT-TERM BENEFITS SALARY $	POST-EMPLOYMENT BENEFITS SUPERANNUATION $	TOTAL $
P Clarke	51,859	4,667	56,526
B Coleman	50,000	4,500	54,500
R Morath (appointed 27 March 2009)	13,017	1,172	14,189
B Phillips (appointed 10 March 2009)	15,514	1,396	16,910
G Galt (until 13 February 2009)	36,667	3,300	39,967
Total remuneration	167,057	15,035	182,092

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

Directors' Report CONTINUED

Directors

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

K Neilson
A Clifford
M Halstead

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

Key management personnel compensation

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

A portion of the compensation paid by Platinum Investment Management Limited to its employees is in relation to managing the affairs of the Company. Platinum Investment Management Limited has not made any determination as to what proportion of its employees' compensation relates to the Company. Platinum Investment Management Limited paid: K Neilson a salary of $313,756 (2008: $313,132) and superannuation of $99,989 (2008: $99,997); A Clifford a salary of $313,747 (2008: $313,130) and superannuation of $49,997 (2008: $49,999); and M Halstead a salary of $263,756 (2008: $313,130) and superannuation of $99,989 (2008: $49,999). Platinum Investment Management Limited provided for additional long service leave as follows: K Neilson $12,753 (2008: $3,854), A Clifford $12,926 (2008: $3,656) and M Halstead $10,339 (2008: $3,932); and provided for an increase/(decrease) in annual leave as follows: K Neilson ($1,282) (2008: ($18,642)), A Clifford ($17,213) (2008: $2,462) and M Halstead ($3,803) (2008: ($8,266)).

Shareholdings

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

NAME	BALANCE AT 01/07/08	ACQUISITIONS	DISPOSALS	BALANCE AT 30/06/09
P Clarke	–	26,096	–	26,096
B Coleman	–	200,000	–	200,000
K Neilson	324,020	1,324,019	–	1,648,039
A Clifford	81,004	1,331,002	–	1,412,006
M Halstead	64,804	349,803	–	414,607

Service Agreements

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

P Clarke, Chairman and Non-Executive Director

- Commenced on 15 April 1999.
- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of $56,526.

B Coleman, Non-Executive Director

- Commenced on 10 June 2004.
- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of $54,500.

R Morath, Non-Executive Director

- Commenced on 27 March 2009.
- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of $14,189.

Directors' Report CONTINUED

B Phillips, Non-Executive Director

- Commenced on 10 March 2009.
- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of $16,910.

Share-Based Compensation

No shares or options in the Company are granted to Directors.

Directors' Interests in Contracts

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

Directors' Insurance

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

Executives

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

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

Peter Clarke
Chairman
Sydney, 7 August 2009

Malcolm Halstead
Director

Auditor's Independence Declaration

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2009, 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

7 August 2009

Corporate Governance Statement

Platinum Capital Limited ABN 51 063 975 431 is a listed investment company on the Australian Securities Exchange ("**ASX**").

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

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

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

1. The Board of Directors

Members: Peter Clarke (acting Chair), Bruce Coleman, Bruce Phillips, Richard Morath, Kerr Neilson (Managing Director), Andrew Clifford and Malcolm Halstead.

Changes to the Board since last report:

– Graeme Galt deceased, 13 February 2009

– Bruce Phillips appointed 10 March 2009

– Richard Morath appointed 27 March 2009

1.1 Role of the Board

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

The role of the Board is to ensure that:

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

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

1.2 Responsibilities of the Board

The principal responsibilities of the Board include:

– overseeing the Company, including its control and accountability systems;

– overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement;

– monitoring the financial position and performance of the Company;

– 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 communications and reporting to shareholders;

– ensuring compliance with all laws, governmental regulations and accounting standards; and

– ensuring that good corporate governance practices are adopted.

1.3 Structure of the Board

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

Prior to 27 March 2009, the Board was represented by an equal number of Non-Executive and Executive Directors. Recommendation 2.1 of the Governance Principles provides that "[a] majority of the board should be independent directors". At the time, the Board considered equal representation was appropriate for the Company given its size and purpose.

Corporate Governance Statement CONTINUED

The qualifications, experience and term of office of the Directors are provided in the Directors' Report on pages 20 to 22.

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

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

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

1.4 Director Independence

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

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

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

Each Director may from time to time have personal dealings with the Company. Each Director is involved with other companies or professional firms which may from time to time have dealings with the Company.

Details of offices held by Directors with other organisations are set out on pages 20 to 22 of the Directors' Report. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

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

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

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

1.5 Selection and Appointment of Directors

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

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

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

Corporate Governance Statement CONTINUED

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

1.6 Access to Information and Independent Advice

All Directors have unrestricted access to Company records and information.

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

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

1.7 Performance Assessment

The Board undertakes an annual self-assessment of its collective performance, as well as the performance of its Committees. The Board reviews its performance in terms of Company objectives, Company results and achievements of the Investment Manager. The Board ensures each Director has the necessary skills, experience and expertise, and the mix remains appropriate for the Board to function effectively. This assessment was undertaken during August 2009. Independent professional advice may be sought as part of this process.

Recommendation 1.2 of the Governance Principles provides that "[c]ompanies should disclose the process for evaluating the performance of senior executives". As the Company has no senior executives other than the Executive Directors of the Board and the Executive Directors are not remunerated by the Company, it is considered appropriate that their performance be assessed as part of the collective review outlined above.

2. Board Committees

The Board may establish committees to assist in the execution of its duties and (from time to time) to deal with matters of special importance. Each Committee has a documented and approved Charter under which authority is delegated from the Board.

2.1 Audit and Risk Committee

Members: Peter Clarke (Chair until 7 August 2009), Bruce Coleman, Bruce Phillips and Richard Morath.

Changes to the Committee since last Report:

- Graeme Galt, deceased, 13 February 2009
- Bruce Phillips appointed 10 March 2009
- Richard Morath appointed 27 March 2009 (Chair of the Committee from 7 August 2009)

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

Its key responsibilities are to:

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

All members of the Committee are Independent Non-Executive Directors.

Corporate Governance Statement CONTINUED

Recommendation 4.2 of the Governance Principles provides that "[t]he audit committee should be structured so that it is chaired by an independent chair, who is not chair of the board and has at least three members". Following Mr Galt's passing, the Committee operated with two members (from 13 February to 10 March 2009) and P Clarke (Chair of the Audit and Risk Committee) was appointed as acting Chair of the Board (from 13 February to 30 June 2009). These temporary positions would be rectified following a reorganisation of the Board.

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

2.2 Remuneration Committee

Recommendation 8.1 of the Governance Principles provides that "[t]he board should establish a remuneration committee". Given the size of the Company and the fact that the Executive Directors are not remunerated by the Company, the Board has determined that a remuneration committee is not warranted.

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

Further information is provided in the Remuneration Report set out on pages 23 to 26 of the Directors' Report.

Remuneration paid to the Non-Executive Directors for the 2008/2009 reporting year is set out on pages 23 to 26 of the Directors' Report.

3. Company Auditor

The policy of the Board is to appoint auditors who clearly demonstrate competence and independence.

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

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

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

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

4. Company Policies

4.1 Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct 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.

4.2 Trading in Company Securities

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

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

4.3 Financial Reporting

In respect of the year ended 30 June 2009, the Managing Director and Finance Director have made the following certifications to the Board:

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

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

Corporate Governance Statement CONTINUED

4.4 Continuous Disclosure

The Board is committed to:

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

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

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

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

4.5 Shareholder Communication

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

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

4.6 Risk Assessment and Management

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

– there are adequate policies for the oversight and management of material business risks to the Company;

– there are effective systems in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and

– arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

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

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

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

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

4.7 Business Rules of Conduct

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

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

Income Statement FOR THE YEAR ENDED 30 JUNE 2009

	NOTES	2009 $'000	2008 $'000
Investment income			
Dividends		**4,274**	3,185
Interest		**237**	502
Net gains/(losses) on equities/derivatives		**20,879**	(34,432)
Net gains on forward currency contracts		**9,820**	3,043
Net gains/(losses) on overseas bank accounts		**4,249**	(2,064)
Total investment income		39,459	(29,766)
Expenses			
Management fee	15	**2,674**	2,888
Performance fee	15	**5,147**	–
Custody		**160**	176
Share registry		**317**	224
Directors' fees		**182**	169
Continuous reporting disclosure		**155**	127
Auditor's remuneration			
– Auditing services ($85,934, 2008: $84,319)		**86**	84
– Taxation services ($43,401, 2008: $52,042)		**43**	52
Transaction costs		**222**	157
Withholding tax on foreign dividends		**462**	342
Other expenses		**282**	295
Total expenses		9,730	4,514
Profit/(loss) before income tax		29,729	(34,280)
Income tax expense/(benefit)	2(a)	9,162	(10,419)
Profit/(loss) after income tax	8	20,567	(23,861)
Basic earnings per share (cents per share)	7	14.74	(19.00)
Diluted earnings per share (cents per share)	7	14.74	(19.00)

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

Balance Sheet AS AT 30 JUNE 2009

	NOTES	2009 $'000	2008 $'000
Assets			
Cash and cash equivalents	9(a)	**18,275**	19,028
Financial assets at fair value through profit or loss	1(c), 3	**177,583**	138,847
Income tax receivable		**1,114**	2,415
Receivables	4	**1,723**	407
Deferred tax assets	2(b)	**4,951**	6,689
Total assets		**203,646**	167,386
Liabilities			
Payables	5	**6,037**	642
Deferred tax liabilities	2(c)	**995**	125
Total liabilities		**7,032**	767
Net assets		**196,614**	166,619
Equity			
Contributed equity	6	**171,672**	148,533
Retained profits	8	**24,942**	18,086
Total equity		**196,614**	166,619

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

Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2009

	NOTES	2009 $'000	2008 $'000
Total equity at the beginning of the financial year		**166,619**	203,917
Profit/(loss) for the year		**20,567**	(23,861)
Total recognised income and expense for the financial year		**20,567**	(23,861)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transactions costs		**23,139**	5,258
Dividends paid	14	**(13,711)**	(18,695)
		9,428	(13,437)
Total equity at the end of the financial year		**196,614**	166,619

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

Cash Flow Statement FOR THE YEAR ENDED 30 JUNE 2009

	NOTES	2009 $'000 INFLOWS (OUTFLOWS)	2008 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Dividends received		**4,225**	3,190
Interest received		**256**	528
Cost of purchases of financial assets		**(150,771)**	(109,294)
Proceeds from sale of financial assets		**141,073**	129,980
Management fees paid		**(2,625)**	(2,956)
Other expenses		**(1,970)**	(1,607)
Income tax paid		**(5,254)**	(7,151)
Net cash from operating activities	9(b)	**(15,066)**	12,690
Cash flows from financing activities			
Proceeds from issue of shares		**23,139**	5,258
Dividends paid		**(13,729)**	(18,725)
Net cash from financing activities		**9,410**	(13,467)
Net increase/(decrease) in cash and cash equivalents		**(5,656)**	(777)
Cash and cash equivalents held at the beginning of the financial year		**19,028**	21,148
Effects of exchange rate changes on cash and cash equivalents		**4,903**	(1,343)
Cash and cash equivalents held at the end of the financial year	9(a)	**18,275**	19,028

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

Notes to the Financial Statements 30 JUNE 2009

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 7 August 2009.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards (IFRS)

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

Historical Cost Convention

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

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

The Balance Sheet is presented in decreasing order of liquidity.

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. 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.

1. Summary of Significant Accounting Policies CONTINUED

(c) Financial Assets 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 the Investment Manager'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 Income Statement in the period in which they arise.

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

Forward currency contracts are categorised as "financial assets 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 their 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.

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

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

Recognition/derecognition

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

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

(d) Transaction Costs

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

(e) Foreign Currency Translation

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

Transactions denominated in foreign currencies are translated into Australian currency at the rates of exchange prevailing on the date of the transaction. Foreign currency assets and liabilities existing at balance date are translated at 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 Income Statement using the effective interest method, which allocates income over the relevant period.

Dividend income

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

(g) Directors' Entitlements

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

1. Summary of Significant Accounting Policies CONTINUED

(h) Earnings per Share

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

(i) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes deposits at call and cash at bank, which are readily convertible to cash on hand.

Cash at the end of the financial year, as shown in the Cash Flow Statement, is reconciled to the related item in the Balance Sheet.

(j) Receivables

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

(k) Payables

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

(l) Contributed Equity

Ordinary shares are classified as equity.

(m) Dividends

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

(n) Rounding of Amounts

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

(o) Goods and Services Tax (GST)

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

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

(p) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2009 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

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

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

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

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

(iii) AASB 2008-5: *Amendments to Australian Accounting Standards arising from the Annual Improvement Project* (effective from 1 January 2009) and AASB 2008-6: *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project* (effective from 1 July 2009)

1. Summary of Significant Accounting Policies CONTINUED

(p) New Accounting Standards and Interpretations CONTINUED

These Standards make a number of amendments. The most relevant one for the Company being to AASB 139: *Financial Instrument Recognition and Measurement*. The revised AASB 139 is applicable to reporting periods beginning on or after 1 July 2009. This amendment clarifies the definition of "financial asset or financial liability at fair value through profit or loss" as it relates to items that are held for trading. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The amendment is consistent with the Company's existing policies and is not expected to have an impact on adoption. The Company has not adopted this standard early.

(iv) AASB 2009-2: *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*

AASB 2009-2 is applicable to annual reporting periods beginning on or after 1 January 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk, including:

(i) the introduction of a three-level hierarchy for making fair value measurements; and

(ii) the reliability of fair value measurements.

The amendments may have an impact on the Company's disclosures. However, the amendment will not affect any of the amounts recognised in the Company's financial statements. The Company has not adopted this standard early.

Notes to the Financial Statements 30 JUNE 2009

	2009 $'000	2008 $'000
2. Income Tax		
(a) The income tax expense/(benefit) attributable to profit/(loss) comprises:		
Current income tax provision	**6,548**	3,410
Deferred tax liabilities	**870**	(7,440)
Deferred tax assets	**1,738**	(6,575)
Under/(over) provision of prior period tax	**6**	186
Income tax expense/(benefit)	**9,162**	(10,419)
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	**29,729**	(34,280)
Prima facie income tax on profit/(loss) at 30%	**8,919**	(10,284)
Tax effect on temporary differences which:		
Increase tax payable		
Deferred tax asset not recognised	**526**	–
Reduce tax payable		
Allowable credits	**(289)**	(321)
Under/(over) provision of prior period tax	**6**	186
Income tax expense/(benefit)	**9,162**	(10,419)
(b) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Auditing and review	**9**	17
Taxation services	**7**	7
Preparation of annual report and dividend processing	**45**	50
Capital expenditure not immediately deductible	**36**	–
Unrealised losses on financial assets	**4,854**	6,615
Deferred tax assets	**4,951**	6,689

2. Income Tax CONTINUED

(c) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2009 $'000	2008 $'000
Dividends receivable	**48**	31
Accounting/tax cost on investments	**947**	94
Deferred tax liabilities	**995**	125

For the year ended 30 June 2009 deferred tax assets of $526,266 (2008: nil) arising from unrealised investment losses have not been brought to account.

3. Financial Assets at Fair Value Through Profit or Loss

	2009 $'000	2008 $'000
Equity securities	**174,108**	136,174
Derivatives	**(364)**	2,542
Foreign currency contracts	**3,839**	131
	177,583	138,847

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

4. Receivables

	2009 $'000	2008 $'000
Proceeds on sale of financial assets	**1,414**	143
Interest receivable	**2**	21
Goods and Services Tax	**35**	29
Dividends receivable	**152**	103
Prepayments	**80**	74
Sundry debtors	**40**	37
	1,723	407

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

Notes to the Financial Statements 30 JUNE 2009

	2009 $'000	2008 $'000
5. Payables		
Payables on purchase of financial assets	**268**	1
Trade creditors (unsecured)	**5,655**	509
Unclaimed dividends payable to shareholders	**114**	132
	6,037	642

Included in trade creditors is an amount of $5,147,000 which represents the Performance fee payable to the Investment Manager. Please refer to Note 15 for further details. 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 60 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

		2009 QUANTITY	2009 $'000	2008 QUANTITY	2008 $'000
Opening balance		**127,150,058**	**148,533**	124,004,583	143,275
Reinvestment of unclaimed dividends	6-Sep-07 (b)	–	–	8,210	17
Dividend reinvestment plan	14-Nov-07 (a)	–	–	1,892,923	3,445
Dividend reinvestment plan	4-Mar-08 (a)	–	–	1,223,327	1,761
Reinvestment of unclaimed dividends	15-May-08 (b)	–	–	21,015	35
Reinvestment of unclaimed dividends	8-Sep-08 (b)	**13,914**	**19**	–	–
Dividend reinvestment plan	14-Nov-08 (a)	**1,669,647**	**1,703**	–	–
Rights Issue	26-Nov-08 (c)	**16,315,484**	**17,458**	–	–
Share Purchase Plan	5-Dec-08 (d)	**1,914,355**	**2,010**	–	–
Dividend reinvestment plan	6-Mar-09 (a)	**1,676,550**	**1,911**	–	–
Reinvestment of unclaimed dividends	19-May-09 (b)	**26,061**	**38**	–	–
Closing balance		**148,766,069**	**171,672**	127,150,058	148,533

(a) Shares are 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.

Notes to the Financial Statements 30 JUNE 2009

6. Contributed Equity CONTINUED

(c) On 16 October 2008, the Company announced a Rights Issue in which eligible Australian and New Zealand shareholders were offered 1 share for every 1 fully paid ordinary share held as at 31 October 2008 at an issue price of $1.07 per share. On 26 November 2008, 16,315,484 shares were allotted.

(d) On 22 October 2008, the Company announced a Share Purchase Plan (SPP) in which eligible Australian and New Zealand shareholders, were able to purchase shares up to a maximum value of A$5,000. The issue price was equal to a 5% discount of the weighted average price for the five trading days before the allotment date of 5 December 2008. On 5 December 2008, 1,914,355 shares were allotted.

Ordinary Shares

At 30 June 2009, Ordinary Shares on issue totalled 148,766,069 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.

	2009	2008
7. Earnings per Share		
Basic earnings per share – cents per share	**14.74**	(19.00)
Diluted earnings per share – cents per share	**14.74**	(19.00)
Weighted average number of Ordinary Shares on issue used in the calculation of basic and diluted earnings per share	**139,540,169**	125,601,279

	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**20,567**	(23,861)

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

	NOTES	2009 $'000	2008 $'000
8. Retained Profits			
Retained earnings at the beginning of the financial year		**18,086**	60,642
Net profit/(loss)		**20,567**	(23,861)
Dividends provided for or paid	14	**(13,711)**	(18,695)
Retained earnings at the end of the financial year		**24,942**	18,086

	2009 $'000	2008 $'000
9. Notes to the Cash Flow Statement		
(a) Reconciliation of Cash		
Cash at bank*	**132**	150
Cash on deposit**	**18,143**	18,878
	18,275	19,028

* Includes $112,000 (2008: $130,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $6,807,000 (2008: $8,102,000) on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security and are not available for use by the Company until the derivative contracts are closed out. If losses are realised on the close out of derivative contracts, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bears floating interest rates in the range of 0.20% to 3.00% (2008: 0.20% to 0.85%).

Notes to the Financial Statements 30 JUNE 2009

	2009 $'000	2008 $'000
9. Notes to the Cash Flow Statement CONTINUED		
(b) Reconciliation of Net Cash from Operating Activities to Profit/(Loss) after Income Tax		
Profit/(loss) after income tax	**20,567**	(23,861)
Decrease/(increase) in investment securities and forward currency contracts	**(38,736)**	53,558
(Increase)/decrease in cash due to exchange rate movements	**(4,903)**	1,343
Decrease/(increase) in settlements receivable	**(1,271)**	(142)
Decrease/(increase) in dividends receivable	**(49)**	4
Decrease/(increase) in interest receivable	**19**	25
Decrease/(increase) in Goods and Services Tax receivable	**(6)**	41
Decrease/(increase) in sundry debtors	**(3)**	19
Decrease/(increase) in prepayments	**(6)**	13
Decrease/(increase) in income tax receivable	**1,301**	–
(Decrease)/increase in accrued expenses	**5,146**	(102)
(Decrease)/increase in settlements payable	**267**	(637)
(Decrease)/increase in income tax payable	**–**	(3,556)
Decrease/(increase) in deferred tax assets	**1,738**	(6,575)
(Decrease)/increase in deferred tax liabilities	**870**	(7,440)
Net cash from operating activities	**(15,066)**	12,690

(c) Non-Cash Financing Activities

During the year 3,346,197 (2008: 3,116,250) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash under the Dividend Reinvestment Plan during the year totalled $3,614,000 (2008: $5,206,000).

10. Statement of Net Asset Value

	2009 $'000	2008 $'000
Reconciling Net Asset Value in accordance with AIFRS to that reported to the ASX*		
Net Asset Value per Balance Sheet	**196,614**	166,619
Add:		
Difference between bid price under AIFRS and last sale price	**144**	163
Deferred income tax asset on revaluation of investments not recognised in Balance Sheet	**526**	–
Less:		
Deferred income tax asset on revaluation of investments not recognised in Net Asset Value	–	(3,106)
Deferred income tax asset on movements on AIFRS and last sale price	**(43)**	(49)
Net Asset Value	**197,241**	163,627
Net Asset Value – cents per share	**132.58**	128.69

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

Notes to the Financial Statements 30 JUNE 2009

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio		
Japan		
Alpine Electronics	81,200	**1,042**
Asahi Diamond Industrial	133,400	**941**
Canon	20,200	**822**
Daiwa Securities	120,800	**894**
Denso	124,830	**3,984**
Dydo Drinco	25,400	**860**
En-japan	1,589	**2,675**
GS Yuasa – Sold Short	(84,700)	**(50)**
Hamamatsu Photonics	33,600	**798**
Inpex	19	**188**
Itochu Techno Solutions	32,500	**1,198**
Japan Steel Works – Sold Short	(144,600)	**(37)**
JGC	94,700	**1,901**
Kajima	128,400	**497**
Kanto Denka Kogyo	427,400	**2,728**
Kintetsu – Sold Short	(42,800)	**(7)**
Mitsubishi UFJ Financial	851,800	**6,556**
Murata Manufacturing	28,668	**1,513**
Nagano Bank	2,100	**6**
Nitto Denko	15,300	**579**
NSD	82,100	**1,033**
Obayashi	381,200	**2,321**
Obic	5,040	**1,016**
Pal	94,800	**1,995**
Sazaby League	78,600	**1,396**
Sekisui House	12,000	**151**
Shimizu	146,900	**794**
SMC	6,955	**926**
Sumitomo Real Estate Sales	54,273	**3,255**

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
Japan CONTINUED		
Tobu Railway – Sold Short	(140,000)	**(90)**
Tokyo Electron	20,500	**1,232**
Toyota Industries	60,900	**1,885**
Ushio Denki	60,500	**1,197**
Yahoo Japan	3,000	**1,166**
Yamanashi Chuo Bank	64,895	**443**
Yamato	11,600	**192**
Zenrin	62,400	**1,147**
Total Japan		**47,147**
Other Asia		
China		
China Life Insurance – H	61,000	**280**
China Life Insurance – P – Note	251,341	**1,272**
China Mengniu Dairy	44,705	**129**
China Rare Earth	8,999,500	**2,189**
China Resources Enterprise	804,800	**1,989**
CITIC Securities – P – Note	65,000	**333**
Denway Motors	1,477,995	**731**
EcoGreen Fine Chemicals	9,071,400	**2,105**
Haitian International	3,505,000	**1,105**
HLS Systems International	18,400	**132**
Travelsky Technology – H	1,436,700	**989**
Wumart Stores	174,426	**270**
		11,524

Notes to the Financial Statements 30 JUNE 2009

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
Other Asia CONTINUED		
Hong Kong		
China Resources Gas	114,600	97
Computime	7,332,300	669
Galaxy Entertainment	314,500	102
Henderson Land Development	503,800	3,584
Hutchison Whampoa	487,200	3,934
Kerry Properties	166,500	906
Luk Fook Holdings International	4,584,900	2,517
		11,809
Korea		
Kangwon Land	67,918	1,077
Korea Investment	39,801	1,422
Samsung Electronics	5,901	3,394
		5,893
Malaysia		
Gamuda	798,700	780
Parkson	1,107,800	1,952
		2,732
Singapore		
Singapore Airlines	192,520	2,187
		2,187
Taiwan		
Far EasTone Telecommunications	348,227	505
Polaris Securities	3,967,284	2,482
Taiwan Semiconductor Manufacturing	150,756	311
		3,298

11. Investment Portfolio CONTINUED

	QUANTITY	2009 FAIR VALUE $'000
Other Asia CONTINUED		
Thailand		
Airports of Thailand – Foreign	456,000	**444**
Bangkok Bank – Foreign	171,624	**672**
Bangkok Bank – NVDR	802,560	**3,142**
		4,258
Total Other Asia		**41,701**
Australia		
Lihir Gold	97,900	**289**
Total Australia		**289**
Europe – Euro		
Belgium		
Umicore	30,000	**844**
		844
France		
Areva	1,253	**903**
Lagardere	28,025	**1,154**
Pernod Ricard	22,408	**1,747**
PPR	22,313	**2,258**
Sanofi-Aventis	36,000	**2,621**
Schneider Electric	20,291	**1,917**
Veolia Environnement	69,587	**2,541**
		13,141

Notes to the Financial Statements 30 JUNE 2009

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
Europe – Euro CONTINUED		
Germany		
Adidas	37,200	**1,750**
Bayerische Motoren Werke	55,000	**2,565**
Henkel KGAA – Vorzug	98,044	**3,776**
Hornbach Baumarkt	36,656	**1,850**
Hornbach	11,860	**1,099**
Infineon Technologies	549,344	**2,405**
Kontron	70,000	**1,084**
MTU Aero Engines	23,146	**1,045**
Qiagen	18,968	**433**
SAP	41,352	**2,063**
Siemens	50,249	**4,303**
		22,373
Netherlands		
Crucell	14,465	**432**
Royal Dutch Shell	81,714	**2,531**
		2,963
Total Europe – Euro		**39,321**

11. Investment Portfolio CONTINUED

	QUANTITY	2009 FAIR VALUE $'000
Europe – Other		
Sweden		
Atlas Copco – Sold Short	(15,624)	**(14)**
SKF – Sold Short	(87,854)	**(4)**
		(18)
United Kingdom		
Reed Elsevier	175,734	**1,621**
SABMiller	1,200	**30**
Virgin Media	45,000	**520**
		2,171
Total Europe – Other		**2,153**
North America		
Canada		
Bombardier	327,900	**1,200**
Cameco	25,200	**800**
Canfor Pulp Income Fund	58,000	**153**
Domtar	15,883	**326**
Kinross Gold	31,000	**698**
Thomson Reuters – Sold Short	(34,200)	**15**
		3,192

Notes to the Financial Statements 30 JUNE 2009

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
North America CONTINUED		
United States		
Advanced Micro Devices	53,095	**254**
AES	174,300	**2,510**
Alcoa	109,000	**1,395**
Amazon.com – Sold Short	(39,400)	**(37)**
Amdocs	61,992	**1,645**
Autozone – Sold Short	(18,500)	**96**
Barrick Gold	21,900	**912**
Best Buy – Sold Short	(37,000)	**238**
Caliper Life Sciences	63,114	**138**
CH Robinson Worldwide – Sold Short	(43,205)	**(148)**
Charles Schwab – Sold Short	(29,146)	**14**
Cisco Systems	197,800	**4,572**
Danaher – Sold Short	(10,800)	**(10)**
Darden Restaurants – Sold Short	(6,000)	**1**
eBay	44,700	**948**
Expeditors International Washington – Sold Short	(16,694)	**2**
Far East Energy	888,000	**421**
Incyte	42,046	**172**
International Paper	138,966	**2,609**
IShares Real Estate ETF – Sold Short	(35,702)	**(65)**
Johnson & Johnson	34,000	**2,392**
KBR	18,784	**430**
Mercer International	89,000	**65**
Merck	74,200	**2,571**
Micron Technology	461,100	**2,893**
Microsoft	240,500	**7,095**
MSCI Emerging Markets Index Fund – Sold Short	(13,000)	**(29)**
Newmont Mining	47,050	**2,381**
News Corp – CDI	80,548	**1,076**

11. Investment Portfolio CONTINUED

	QUANTITY	2009 FAIR VALUE $'000
North America CONTINUED		
United States CONTINUED		
O Reilly Automotive – Sold Short	(47,100)	**(65)**
Research in Motion – Sold Short	(3,000)	**(11)**
Smurfit-Stone Container	225,000	**47**
Sotheby's	3,600	**63**
Staples – Sold Short	(139,338)	**22**
T Rowe Price – Sold Short	(40,592)	**16**
Veeco Instruments	36,636	**527**
VFC – Sold Short	(21,200)	**15**
XOMA	127,145	**129**
		35,284
Total North America		**38,476**
South America		
Brazil		
Grendene	110,000	**1,244**
		1,244
Peru		
Bayer Peru – Trabajo	77,287	**118**
Peru Holding De Turismo – Trabajo	1,667,523	**79**
		197
Total South America		**1,441**
South Africa		
AngloGold Ashanti – ADR	75,420	**3,433**
Standard Bank – Sold Short	(196,650)	**(217)**
Total South Africa		**3,216**

Notes to the Financial Statements 30 JUNE 2009

	QUANTITY	2009 FAIR VALUE $'000
11. Investment Portfolio CONTINUED		
Liquids		
Outstanding settlements		1,298
Forward currency contracts		3,839
Cash on deposit		18,143
Total Liquids		**23,280**
Total Investment Portfolio Notes 12(b) and 12(c)		**197,024**
Accounted for in payables (payables on purchase of investments)		268
Accounted for in receivables (proceeds on sale of investments)		(1,414)
Accounted for in receivables (dividends receivable)		(152)
Accounted for in Financial Assets (Note 3) and Cash on Deposit (Note 9(a))		195,726

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

Number of transactions – 2,503 Total brokerage paid – $343,274

12. Financial Risk Management

(a) Financial Risk Management Objectives, Policies and Processes

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

The Investment Manager's investment style:

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

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

(iii) utilises short selling of shares and indices (via equity swaps and futures);

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

(v) actively manages currency.

12. Financial Risk Management CONTINUED

(a) Financial Risk Management Objectives, Policies and Processes CONTINUED

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 the delta adjusted exposure. Compliance with these limits is reviewed by the Board and Audit and Risk Committee on a continuous basis. The Company does not enter or trade derivatives for speculative purposes.

(b) Investments at Fair Value and Derivative Exposure

	2009		2008	
	PHYSICAL $'000	NET EXPOSURE $'000	PHYSICAL $'000	NET EXPOSURE $'000
Japan	**47,331**	**42,873**	29,244	29,244
Other Asia	**41,701**	**41,701**	31,095	30,300
Australia	**289**	**289**	87	(2,467)
Europe – Euro	**39,321**	**39,321**	34,602	30,045
Europe – Other	**2,172**	**629**	2,279	2,279
North America	**38,421**	**11,398**	40,246	7,228
South America	**1,441**	**1,441**	369	(5,173)
South Africa	**3,432**	**613**	794	794
	174,108	**138,265**	138,716	92,250
Cash and accruals	**22,916**	**58,759**	19,254	65,720
Total	**197,024**	**197,024**	157,970	157,970

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

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

Notes to the Financial Statements 30 JUNE 2009

12. Financial Risk Management CONTINUED

(c) Market Risk

(i) Foreign Exchange Risk

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

The Company operates internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency.

The Investment Manager selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. The Investment Manager may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2009, the Company's principal currency exposures were Australian Dollar (24%), Euro (22%), Japanese Yen (13%) and the US Dollar (13%).

This relatively large exposure to the Australian Dollar helped offset some of the losses that occurred from the Australian Dollar which has been rising since January 2009.

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

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

12. Financial Risk Management CONTINUED

(c) Market Risk CONTINUED

(i) Foreign Exchange Risk CONTINUED

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

2009	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	50,343	2,669	(27,091)	25,921
Other Asia	42,854	391	–	43,245
Australia	7,245	44,849	(4,450)	47,644
Europe – Euro	42,370	16,837	(16,576)	42,631
Europe – Other	1,649	8,739	(2,001)	8,387
North America	51,228	18,115	(41,482)	27,861
South America	1,441	–	–	1,441
South Africa	(106)	–	–	(106)
Total	197,024	91,600	(91,600)	197,024

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

Notes to the Financial Statements 30 JUNE 2009

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 maturities) 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

At 30 June 2009, had the Australian Dollar weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, net profit would have been A$2,880,110/A$2,356,454 higher/lower (2008: A$3,889,477/A$3,271,991 higher/lower). Likewise, had the Australian Dollar weakened/strengthened by 10% against the Euro with all other variables held constant, net profit would have been A$4,736,830/A$3,875,588 higher/lower (2008: A$2,806,911/A$2,296,564 higher/lower). Similarly, had the Australian Dollar weakened/strengthened by 10% against the US Dollar with all other variables held constant, net profit would have been A$2,938,914/A$2,404,568 higher/lower (2008: A$4,714,869/A$2,180,496 higher/lower).

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

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

Since January 2009, the Australian Dollar started to appreciate against major currencies and hence currency hedging was undertaken to mitigate some of the adverse impact on returns.

12. Financial Risk Management CONTINUED

(c) Market Risk CONTINUED

(ii) Interest Rate Risk

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

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

Interest rate risk indirectly affects the Company, because 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 2009 and 2008, 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 because of a range of factors specific to the individual investments, or factors affecting the market in general.

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

An additional risk management tool is that the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2009, the Company maintained short positions predominantly against company specific stocks.

Notes to the Financial Statements 30 JUNE 2009

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 listed and unlisted securities and derivatives. The effect on profit due to a possible change in market factors, as represented by a –/+ 5% movement in key regional equity indices affecting the market (and securities/derivatives) that the Company predominantly invests in, with all other variables held constant, is indicated as follows:

At 30 June 2009 if the United States S&P index had increased/decreased by 5% with all other variables held constant, this would have increased/decreased profit of the Company by approximately A$623,447 (2008: A$1,563,136). Similarly, if the Japanese Nikkei 225 index had increased/decreased by 5% with all other variables held constant, this would have increased/decreased profit of the Company by approximately A$2,143,634 (2008: A$1,462,216).

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 because the Investment Manager 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 are often referred to as "index managers". Index managers try to match a particular index by investing in securities that are representative of that index.

12. Financial Risk Management CONTINUED

(d) Credit Risk

Credit risk 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 ratings

	2009 $'000	2008 $'000
Ratings		
AA/Stable/A–1+	–	2,885
AA–/Stable/A–1+	–	11,099
AA–/Negative/A–1+	–	6,075
A+/Stable/A–1	**14,855**	–
A+/Stable/A–2	**1,338**	–
A+/Negative/A–1	–	2,210
A/Stable/A–1	**6,317**	–
A/Negative/A–1	**2,242**	–
Total	**24,752**	22,269

Source: Platinum and Standard & Poor's

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

Notes to the Financial Statements 30 JUNE 2009

12. Financial Risk Management CONTINUED

(d) Credit Risk CONTINUED

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

Ageing analysis

The Company's ageing analysis of receivables at 30 June 2009 is $1,494,549 (0-30 days) (2008: $287,769), $7,757 (31-60 days) (2008: $16,773), $118,179 (61-90 days) (2008: $15,892), $1,216,300 (90+ days) (2008: $2,501,276).

(e) Liquidity Risk

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

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

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

At 30 June 2009, the contractual maturity for amounts payable is no more than three months for unsettled trades which total $267,773 (2008: $1,141), other payables including Performance fees, other trade creditors and dividends payable which total $5,769,257 (2008: $641,024). The Company has sufficient funds to meet these liabilities as the value of assets realisable in one year or less is $202,612,000 (2008: $164,136,000).

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

At 30 June 2009, contractual maturity for settlement of derivative contractual outflows is $784,288 (2008: $24,525) for amounts payable within three months. At 30 June 2009, there are no other contractual amounts due or payable after three months.

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.

12. Financial Risk Management CONTINUED

(e) Liquidity Risk CONTINUED

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.

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

(f) Fair Value Estimation

Please refer to Note 1(c).

(g) Capital Risk Management

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

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the world, so to continue to provide returns to shareholders. The Directors have a policy of smoothing dividend payments over time, but this is subject to the return over time from the investment portfolio. In addition, the Company may adjust its capital structure by issuing new shares, via rights issues, share purchase plans or dividend reinvestment plans.

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

Notes to the Financial Statements 30 JUNE 2009

	2009 $'000	2008 $'000
13. Franking Account		
Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30%	**18,453**	22,870
On tax paid and payable:		
2007/2008	–	3,409
2008/2009	**6,548**	–
Prior year tax provision – franking adjustment	**6**	186
Dividend paid – franked @ 30%	**(5,876)**	(8,012)
	19,131	18,453

	2009 CPS	2009 $'000	2008 CPS	2008 $'000
14. Dividends (fully franked)				
Paid – Final 2007	–	–	10.00	12,400
Paid – Interim 2008	–	–	5.00	6,295
Paid – Final 2008	**5.00**	**6,358**	–	–
Paid – Interim 2009	**5.00**	**7,353**	–	–
		13,711		18,695

	2009 $'000	2008 $'000
Dividends not recognised at year-end		
In addition to the above dividends, since year-end the Directors have recommended the payment of a final dividend of 5 cents per fully paid Ordinary Share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 17 November 2009 but not recognised as a liability at year-end.		
	7,438	6,358

15. Investment Manager

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

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

At 30 June 2009, the annual pre-tax performance of the Portfolio was positive 22.05% and the corresponding MSCI was negative 16.10%. This represents an outperformance of 38.15% against the MSCI and 32.46% after the carry forward net underperformance amount of 0.69% and the 5% MSCI hurdle. Accordingly, a Performance fee of $5,147,000 is payable at 30 June 2009.

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

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

	2009 $'000	2008 $'000
Management fee	**2,674**	2,888
Performance fee	**5,147**	–
	7,821	2,888

Notes to the Financial Statements 30 JUNE 2009

15. Investment Manager CONTINUED

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

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

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

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

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

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

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

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

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

(ii) goes into liquidation;

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

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

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

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

16. Contingent Assets, Liabilities and Commitments for Expenditure

No contingent assets or liabilities exist at 30 June 2009 and 30 June 2008. The Company has no commitments for uncalled share capital on investments.

17. Segment Information

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

The geographical locations of those exposures are outlined below.

	2009 $'000 SEGMENT REVENUE	2009 $'000 SEGMENT RESULT	2008 $'000 SEGMENT REVENUE	2008 $'000 SEGMENT RESULT
Japan	**5,286**	**5,201**	(13,685)	(13,745)
Other Asia	**7,542**	**7,334**	(2,352)	(2,441)
Australia	**911**	**911**	1,749	1,749
Europe – Euro	**(1,990)**	**(2,241)**	(11,285)	(11,477)
Europe – Other	**(290)**	**(302)**	(2,829)	(2,869)
North America	**16,182**	**16,037**	(3,808)	(3,927)
South America	**1,969**	**1,965**	(397)	(397)
South Africa	**29**	**24**	(202)	(202)
Unallocated revenue – Net gains on forward currency contracts	**9,820**	**9,820**	3,043	3,043
Unallocated expenses	**–**	**(9,020)**	–	(4,014)
Total	**39,459**	**29,729**	(29,766)	(34,280)

Notes to the Financial Statements 30 JUNE 2009

17. Segment Information CONTINUED

	2009 $'000 SEGMENT ASSETS	2009 $'000 SEGMENT LIABILITIES	2008 $'000 SEGMENT ASSETS	2008 $'000 SEGMENT LIABILITIES
Japan	**25,921**	**–**	35,449	–
Other Asia	**45,157**	**(159)**	43,554	(29)
Australia	**52,882**	**(6,740)**	22,909	(738)
Europe – Euro	**42,632**	**–**	25,264	–
Europe – Other	**8,907**	**–**	(982)	–
North America	**23,379**	**(133)**	40,029	–
South America	**1,441**	**–**	369	–
South Africa	**3,327**	**–**	794	–
Total	**203,646**	**(7,032)**	167,386	(767)

18. Events Occurring After Balance Sheet Date

No significant events have occurred since balance date which would impact the Balance Sheet of the Company as at 30 June 2009 and the results for the year ended on that date.

19. Key Management Personnel Disclosures

(a) Details of Remuneration

Non-Executive Directors

During the financial year the Company paid the Non-Executive Directors (P Clarke, B Coleman, R Morath, B Phillips and G Galt) salaries of $167,057 (2008: $155,000) and superannuation of $15,035 (2008: $13,950).

Executive Directors

The Executive Directors (K Neilson, A Clifford and M Halstead) are all employees of the Investment Manager, Platinum Investment Management Limited, and are not remunerated by the Company. A portion of the compensation paid by the Investment Manager to its employees is in relation to managing the affairs of the Company. Platinum Investment Management Limited has not made any determination as to what proportion of its employees' compensation relates to Platinum Capital Limited. Platinum Investment Management Limited paid Executive Directors of the Company salaries of $891,259 (2008: $939,392) and superannuation of $249,975 (2008: $199,995).

Platinum Investment Management Limited provided for the Executive Directors total additional long service leave of $36,018 (2008: $11,442) and provided a decrease in total annual leave of $22,298 (2008: $24,446).

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

P Clarke held nil shares at 1 July 2008, acquired 26,096 shares during the year, disposed of nil shares during the year and held 26,096 shares at 30 June 2009. B Coleman held nil shares at 1 July 2008, acquired 200,000 shares during the year, disposed of nil shares during the year and held 200,000 shares at 30 June 2009. K Neilson held 324,020 shares at 1 July 2008, acquired 1,324,019 shares during the year, disposed of nil shares during the year and held 1,648,039 shares at 30 June 2009. A Clifford held 81,004 shares at 1 July 2008, acquired 1,331,002 shares during the year, disposed of nil shares during the year and held 1,412,006 shares at 30 June 2009. M Halstead held 64,804 shares at 1 July 2008, acquired 349,803 shares during the year, disposed of nil shares during the year and held 414,607 shares at 30 June 2009.

Notes to the Financial Statements 30 JUNE 2009

20. Related Party Information

Key Management Personnel

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

Related Parties

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

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 38 to 80 are in accordance with the *Corporations Act 2001* including:

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

(ii) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 23 to 26 of the Directors' Report comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

Peter Clarke
Chairman
Sydney, 7 August 2009

Malcolm Halstead
Director

Independent Auditor's Report TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

PRICEWATERHOUSECOOPERS

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Report on the financial report

We have audited the accompanying financial statements of Platinum Capital Limited which comprises the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for Platinum Capital Limited.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the company's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

Independent Auditor's Report CONTINUED

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 26 of the Directors' Report for the year ended 30 June 2009. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Platinum Capital Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

A J Wilson
Partner

Sydney, 7 August 2009