PLATINUM ASSET MANAGEMENT LIMITED 2008 ANNUAL REPORT

TYRANNY OF TRADITION

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TYRANNY OF TRADITION

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

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

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

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

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

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

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

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

KERR NEILSON
Managing Director

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

LONG TIME COMING

THE PROSPECTS FOR DEMOCRACY IN CHINA

JOHN L THORNTON

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

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

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

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

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

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

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

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

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

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

FREE TO CHOOSE

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

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

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

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


CONTENTS

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

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

THE RULE OF LAW

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

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

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

OVERSIGHT

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

DEMOCRACY IN CHINA

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

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

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

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

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

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

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

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

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

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

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

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


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

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

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

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

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

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

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

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

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THE MYTH OF THE AUTHORITARIAN MODEL

HOW PUTIN'S CRACKDOWN HOLDS RUSSIA BACK

MICHAEL McFAUL AND KATHRYN STONER-WEISS

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

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

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

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

POLITICAL THERMIDOR

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

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

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

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

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

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

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

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

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

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


May 4

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

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

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

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

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

BIGGER IS NOT BETTER

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

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

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

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


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

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

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

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

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

A EURASIAN TIGER?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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PLATINUM ASSET MANAGEMENT LIMITED 2008 ANNUAL REPORT

Platinum® ASSET MANAGEMENT

2008 ANNUAL REPORT

PLATINUM ASSET MANAGEMENT LIMITED

ABN 13 050 064 287

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CONTENTS

PERFORMANCE

The performance of your Company has been adversely impacted by increased volatility in global markets, the sub-prime credit market fall out, rising oil prices, interest rates and inflation, together with a slowing in global growth. Funds Under Management (FUM) declined 29.4% (or $6.3 billion) over the course of the 2007/2008 year to $14.9 billion (including the impact of distributions) at 30 June 2008.

The operating profit before tax derived by the consolidated entity for the year ended 30 June 2008 is $238.7 million (2007: $275.9 million), which represents a decline of 13.5%. Similarly, operating profit after tax for the year ended 30 June 2008 is $162.0 million (2007: $186.2 million) a decline of 13.0%. The reduction in operating profit can be attributed to:

– a decline in performance share fees of 23.8% from $37.6 million in 2007 to $28.7 million in 2008. Performance share fees are volatile, largely in line with absolute investment returns; and

– a decline in management fees of 4.98% from $251.0 million in 2007 to $238.5 million in 2008.

The diluted earnings per share figure for the year ended 30 June 2008 is 27.62 cents per share.

In the short-term, management fees may decline further. Performance share fees are earned in the calendar year and with half of that passed and with absolute performance for the first six months being -9%, it is difficult to foresee, given current market conditions, any performance fees being earned for 2008/2009.

FUM for the years ended 30 June 2008 and 2007, and a breakdown of the composition of FUM are shown in the tables over.

FUM for the year ended 30 June 2008

FUND	OPENING BALANCE $ MILLION	FLOWS $ MILLION	DISTRIBUTIONS $ MILLION	INVESTMENT PERFORMANCE $ MILLION	CLOSING BALANCE $ MILLION
Platinum Trust Funds	13,893	(216)	(569)	(2,214)	10,894
MLC-Platinum Global Fund	2,872	(721)	–	(411)	1,740
Management Fee Mandates	1,239	9	–	(195)	1,053
Performance Share Fee Mandates	3,215	(1,534)	–	(402)	1,279
Total	**21,219**	**(2,462)**	**(569)**	**(3,222)**	**14,966**

FUM for the year ended 30 June 2007

FUND	OPENING BALANCE $ MILLION	FLOWS $ MILLION	DISTRIBUTIONS $ MILLION	INVESTMENT PERFORMANCE $ MILLION	CLOSING BALANCE $ MILLION
Platinum Trust Funds	11,111	1,893	(334)	1,223	13,893
MLC-Platinum Global Fund	3,188	(630)	–	314	2,872
Management Fee Mandates	953	206	–	80	1,239
Performance Share Fee Mandates	3,733	(441)	–	(77)	3,215
Total	**18,985**	**1,028**	**(334)**	**1,540**	**21,219**

FUM at 19 August 2008 was $15.1 billion.

DIVIDEND

The final dividend will be a fully franked dividend of 12 cents per share payable on 22 September 2008.

This is in addition to the fully franked interim dividend of 12 cents per share paid on 12 March 2008. The total dividend payout ratio is 83% of net profit after tax which is in accordance with the Dividend Policy and consistent with our working capital needs.

The Directors are confident that future dividends will be fully franked.

I note that whilst the Company has a Dividend Reinvestment Plan in place, it is not activated and unlikely to be so in the near-term.

OUTLOOK

For an investment management company, such as Platinum, to forecast earnings requires a view of the future dependent on a number of unknown variables such as: international and Australian currency variations; world share market movements; forecast dividend yields from companies held; likely variations in share prices from forecast share market levels; and to forecast what companies we will indeed be invested in. Additionally, it requires us to forecast fund flows for which we have no sound methodology on which to base a prediction.

Accordingly your Board will not be offering earnings forecasts.

A number of brokers' analysts are covering the stock and you may find some of their reports on the Company's website.

THE BOARD AND ITS COMMITTEES

This year, our first full year as a public company, has seen a deal of work undertaken in the Remuneration and Audit Committees.

The Remuneration Committee, chaired by Mr Coleman and in conjunction with the Deputy Chief Investment Officer (Deputy CIO), Mr Clifford, has undertaken an extensive review of the short-term incentive remuneration programme for Platinum's investment team. The programme has been enhanced and continues to align remuneration with investment performance. The Committee, in conjunction with the Deputy CIO, is undertaking a review of the long-term incentive scheme (the Option and Performance Rights Plan (OPRP)) and is introducing a closely targeted medium-term incentive (MTI) remuneration programme. The MTI remuneration will also be aligned with investment performance. The Committee is focused on ensuring the sustainability and succession of Platinum's investment team. Whilst this may increase compensation costs in the shorter term, we believe that resulting improved or sustained investment performance will contribute to enhanced revenues.

These initiatives will, over time, increase staffing costs, however, it is of critical importance for the succession planning of the Company.

The Audit Committee, chaired by Mrs Towers and in conjunction with Platinum's Compliance and Risk team, has reviewed Platinum's Risk and Compliance Frameworks. An external review of the Risk Framework initiated by the Audit Committee has reported that the Risk and Compliance within Platinum is well managed and in accordance with best standards.

MONITORING COSTS

Expenses incurred by Platinum are closely monitored. The Company has implemented cost savings in a range of areas, other than in compensation, as noted above. This is an ongoing task. However, it should be noted that the majority of costs are largely fixed in nature and so whilst we remain very efficient, the cost control programme will not have a material impact on the bottom line. Owing to both the nature and quantum of costs, the profit is highly leveraged to changes in the revenue streams.

ENVIRONMENT

Your Company remains carbon neutral, having purchased carbon credits to offset its carbon emissions. Your Company has reduced its level of carbon emissions this year and strives toward further reductions.

CONCLUSION

This has been a very difficult year for global equity markets and the financial services sector in particular. Your Directors remain optimistic that the Company can generate favourable investment returns for its clients over the medium to longer-term which will result in satisfactory returns to shareholders.

MICHAEL COLE
Chairman

INVESTMENT MARKETS

Markets have been most challenging since evidence of the excesses of the credit cycle first came to light in May 2007.

Our own performance has been adequate rather than good. The bulk of our funds have outperformed in the last 12 months by a few percentage points, but by a smaller margin than investors have come to expect.

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

Growth

Developed economies are slowing to a snail's pace; developing markets continue to grow but are feeling the effects of diminishing demand for their exports and are being adversely affected by rampaging input costs.

Inflation

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

Profits

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

Credit

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

What is coming into view?

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

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

Just as inflation is starting to really frighten these regimes, with recorded inflation ranging between 7% and 14%, there comes the need to allow the true market price to ration the demand for basic necessities and to allocate resources. This will likely lead to a change in perception about the risk of emerging markets. This has already happened emphatically in the case of last year's top favourite, Vietnam. Seen as the next great miracle, that stock market has halved in the face of concerns about inflation (at 25%), the weakening Dong, and the foreign borrowings of some state owned enterprises and banks.

This growing concern about developing markets is likely to re-establish the risk premium at higher levels. As we all know, the attraction of superior growth in these countries had completely changed investors' risk/reward perceptions and many of these markets started to be rated on par with developed markets. Some of this new-found faith was always questionable in the case of several resource-rich countries. It was precisely because of their natural resource wealth that their political regimes were intolerant and stymied the development of strong institutions. The natural extension of this is the emerging trend towards resource nationalism – hardly reassuring to owners of capital.

There is also likely to be more attention to corporate earnings. Broker analysts have still barely revised their earnings estimates for next year. The majority of fund managers do not believe the analyst consensus of low teens earnings growth (going by the buy-side surveys) but there is still the glimmer of hope that things will improve in the second half – incidentally we're here now and it doesn't look great.

As a general statement, we can argue that equity markets are most happy when inflation is around 2%, less than that and we find ourselves in the difficult position recently experienced by Japanese companies; customers are highly sensitive to price increases and it is often better to absorb the pressure of costs than to lose sales from "sticker-shock". However, as inflation rises to higher levels it progressively erodes the valuation of equities. This is so for several reasons, some relate to the availability of credit, but of greater importance is the effect of taxation on illusory profits.

Should concerns about rising inflation become embedded, the price investors will pay for forward earnings will deteriorate. It would also lead fund managers to look for those companies that are relatively protected from inflation. This could result in defensive, non-capital intensive businesses to be favoured over those which are pure price takers and have a lot of money tied up in plant and working capital. For example, food retailers would look very good versus steel mills, and of course, steel mills are presently the flavour of the month.

Looking slightly further out, we believe we are at the cross-over point where behaviour must shift in the West. We anticipate savings to rise at the expense of consumption, and the backlog of investment in public infrastructure plus the need to address alternative energy sources and conservation, to make a positive contribution. At the same time one can expect the reverse in China and most of Asia, excluding India, where savings need to make way for consumption. China is at the extreme where investment and the trade surplus dwarf the consumer, such that one is inclined to believe there will be some painful adjustments as their appreciating exchange rate takes its toll.

OUTLOOK

There are plenty of issues for the market to worry about. Consumers everywhere are feeling the pinch of rising costs, principally food and energy. However, among the richer countries there is also a housing slump, tighter credit and in due course the real prospect of lay-offs. As we have been saying for a while, profits in aggregate will fall as companies face reduced pricing power and higher input costs.

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

OUR BUSINESS

Our business tends to be highly sensitive to stock market conditions. Though our funds tend to out-perform in weak markets, investors nevertheless become impatient and some engage in market timing which can reduce new applications and result in net redemptions. In addition, the value of our funds (FUM) will to some extent mirror the loss in global market capitalisations which translates into reduced fees. As our cost base is already frugal and largely fixed, the effect of the above is to produce a disproportionate deterioration of profits.

This we cannot avoid. We are, however, looking at various avenues to awaken investor interest in our products and continue to assiduously develop the investment team and the investment decision making process. In this regard we have made good progress with our knowledge–sharing platform, our information screens are proving valuable and communication among team members is good.

As you might imagine with 23 analysts working on quite discrete industries and companies, the challenge is to bring order to diverse sets of information and understanding and to then synthesise it into coherent portfolios comprising individual stocks. Another hurdle for a fund manager who follows a stock-picking approach (as opposed to hugging the in-crowd) is to avoid acting too early. We have an excellent record of anticipating emerging themes but need to improve our degree of anticipation.

We continue with our business development plans, having registered a subsidiary in Singapore, and plan to offer our services to offshore long-term investors throughout Asia and the Middle East. Additionally we plan to offer our services to the Australian institutional market.

CONCLUSION

The business is on a sound footing and our funds are relatively well positioned for the testing markets we anticipate. Performance remains the key and we are confident we can sustain and improve on our superior performance in the field.

KERR NEILSON
Managing Director

2008
FINANCIAL STATEMENTS
PLATINUM ASSET MANAGEMENT

SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDERS

The following parties have notified the Company that they have a substantial relevant interest in the ordinary shares of Platinum Asset Management Limited as at 18 August 2008:

	NUMBER OF SHARES	%
J Neilson, K Neilson	323,074,841	57.59
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.85

DISTRIBUTION OF SECURITIES

	CLASS OF EQUITY SECURITY ORDINARY
(i) Distribution schedule of holdings	
1 – 1000	6,427
1,001 – 5,000	17,299
5,001 – 10,000	3,387
10,001 – 100,000	1,788
100,001 and over	60
Total number of holders	28,961
(ii) Number of holders of less than a marketable parcel	214
(iii) Percentage held by the 20 largest holders	78.31%

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of listed equity securities as at 18 August 2008 are listed below:

	NUMBER OF SHARES	%
Platinum Investment Management Limited	237,233,658	42.29
J Neilson	136,250,000	24.29
Jilliby Pty Limited	11,115,000	1.98
Charmfair Pty Limited	10,000,000	1.78
National Nominees Limited	7,573,087	1.35
Citicorp Nominees Pty Limited	7,436,948	1.33
HSBC Custody Nominees (Australia) Limited	7,383,361	1.32
JP Morgan Nominees Australia Limited	6,069,524	1.08
J Clifford	5,000,000	0.89
ANZ Nominees Limited	3,676,477	0.66
Australia Reward Investment Alliance	1,521,583	0.27
Citicorp Nominees Pty Limited	1,189,300	0.21
RBC Dexia Investor Services Australia Nominees Pty Limited	759,048	0.14
Queensland Investment Corporation	741,576	0.13
UBS Wealth Management Australia Nominees Pty Limited	705,391	0.13
RBC Dexia Investor Services Australia Nominees Pty Limited	601,748	0.11
Questor Financial Services Limited	561,695	0.10
Bond Street Custodians Limited	484,363	0.09
S Gilchrist	479,651	0.09
UBS Nominees Pty Limited	413,744	0.07

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.

WORKING CAPITAL

In accordance with ASX Listing Rule 4.10.19, Platinum Asset Management Limited has used its working capital in a way consistent with its business objective.

PLATINUM'S COMMITMENT TO CARBON NEUTRALITY

Platinum Asset Management remains carbon neutral, having purchased carbon credits to offset its carbon emissions. Your Company has reduced its level of carbon emissions this year and strives toward further reductions.

DISTRIBUTION OF ANNUAL REPORT TO SHAREHOLDERS

The Law allows for an "opt in" regime in which shareholders will only receive a printed "hard copy" version of the Annual Report if they request one.

The Directors have decided to mail out the 2008 Annual Report to all shareholders, unless they have opted out. This position will be kept under review. Please communicate your views to the Company Secretary at invest@platinum.com.au.

QUESTIONS FOR THE AGM

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

FINANCIAL CALENDAR

Ordinary shares trade ex-dividend	26 August 2008
Record (books close) date for final dividend	1 September 2008
Final dividend paid	22 September 2008
Annual General Meeting	4 November 2008

These dates are indicative and may be changed.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Platinum Asset Management Limited (the "**Company**") and the entities it controlled at the end of, or during, the year ended 30 June 2008.

DIRECTORS

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

Michael Cole	(Chairman and Non-Executive Director)
Bruce Coleman	(Non-Executive Director)
Margaret Towers	(Non-Executive Director)
Kerr Neilson	(Managing Director)
Malcolm Halstead	(Finance Director and Company Secretary)

PRINCIPAL ACTIVITY

The Company is the non-operating holding company of Platinum Investment Management Limited. Platinum Investment Management Limited, trading as Platinum Asset Management, operates a funds management business.

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.

TRADING RESULTS

The profit after tax of the consolidated entity for the year was $161,952,000 (2007: $186,173,000) after income tax expense of $76,749,000 (2007: $89,718,000).

DIVIDENDS

Since the end of the financial year, the Directors have declared the payment of a 12 cents per share ($67,320,000) fully franked dividend payable to shareholders on 22 September 2008.

A fully franked interim dividend of 12 cents per share ($67,320,000) was paid on 12 March 2008.

REVIEW OF OPERATIONS

The consolidated profit before tax was $238,701,000 (2007: $275,891,000).

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 affected 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 continues to pursue its business objectives, by continuing to be the holding company of the Platinum Asset Management funds management business. The methods of operating the consolidated entity are not expected to change in the foreseeable future.

ROUNDING OF AMOUNTS

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

AUDITOR

PricewaterhouseCoopers has been appointed Auditor in accordance with section 327 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

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

Details of amounts paid or payable to the Auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in the table on page 17.

	2008 $	2007 $
Audit services – statutory	**271,041**	258,916
Taxation services – compliance	**539,380**	342,805
Taxation services – advice	**8,755**	18,667
Taxation services – foreign tax agent	**13,755**	16,857
Assurance services – risk management	**58,100**	–
Advisory services – IPO, restructuring and related costs*	**944,559**	935,260
Total	**1,835,590**	1,572,505

* For 2008, the advisory services provided by PricewaterhouseCoopers predominantly related to taxation and legal work associated with the payment of stamp duty, arising from the restructure of the Company, prior to the offer of shares to the public in the 2007 IPO.

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 22.

INFORMATION ON DIRECTORS

Michael Cole BECON, MECON, FFIN

Independent Non-Executive Director, Chair and member of the Audit and Remuneration Committees since 10 April 2007. (Age 60)

Mr Cole has over 30 years experience in the investment banking and funds management industry. He was an Executive Director/Executive Vice President at Bankers Trust Australia for over 10 years. Mr Cole remains Chairman of Ironbark Capital Limited.

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director, Chair of the Remuneration Committee and member of the Audit Committee since 10 April 2007. (Age 58)

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

Margaret Towers CA, GAICD

Independent Non-Executive Director and Chair of Audit Committee and member of the Remuneration Committee since 10 April 2007. (Age 50)

Ms Towers is a Chartered Accountant with over 26 years experience in the financial markets. She was formerly an Executive Vice President at Bankers Trust Australia. Ms Towers currently acts as an independent consultant to a number of Australian financial institutions. She was previously with Price Waterhouse.

Kerr Neilson BCOM, ASIP

Managing Director since 12 July 1993. (Age 58)

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

Malcolm Halstead CA

Finance Director and Company Secretary since 20 February 2007. (Age 50)

Mr Halstead has been a Director of Platinum Investment Management Limited and Platinum Capital Limited since their formation in 1994. Prior to Platinum, Mr Halstead was a Vice President at Bankers Trust Australia. Previously he was with Price Waterhouse, Sydney and Jolliffe Cork, London.

DIRECTORS' MEETINGS

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

NAME	BOARD MEETINGS HELD WHILE A DIRECTOR	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE MEETINGS HELD WHILE A MEMBER	AUDIT COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS HELD WHILE A MEMBER	REMUNERATION COMMITTEE MEETINGS ATTENDED
M Cole	4	4	4	4	4	4
B Coleman	4	4	4	4	4	4
M Towers	4	4	4	4	4	4
K Neilson	4	4	–	–	–	–
M Halstead	4	4	–	–	–	–

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 or consolidated entity.

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

Non-Executive Directors

All remuneration of the Non-Executive Directors is paid by Platinum Investment Management Limited. The Non-Executive Directors received the following amounts during the financial year:

NAME	SHORT-TERM BENEFITS SALARY $	POST-EMPLOYMENT BENEFITS SUPERANNUATION $	TOTAL $
M Cole	200,000	13,129	213,129
B Coleman	175,000	13,129	188,129
M Towers	175,000	13,129	188,129
Total remuneration	550,000	39,387	589,387

Executive Directors

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 Asset Management Limited.

Other than those disclosed on the following page, there are no employees who hold an executive position within the Company.

Key management personnel compensation

The Executive Directors (K Neilson and M Halstead) are employed by Platinum Investment Management Limited and receive their remuneration from Platinum Investment Management Limited.

AASB 124 requires compensation provided by the Company or on behalf of the Company to be disclosed. A portion of the compensation paid by Platinum Investment Management Limited to its employees is in relation to managing the affairs of the Company. Platinum Investment Management Limited has not made any determination as to what proportion of its employees' compensation relates to the Company. Platinum Investment Management Limited paid: K Neilson a salary of $313,132 (2007: $207,575) and superannuation of $99,997 (2007: $105,111) and M Halstead a salary of $313,130 (2007: $250,000), and superannuation of $49,999 (2007: $12,686).

For the full financial year, A Clifford was a Director of the operating subsidiary, Platinum Investment Management Limited. A Clifford was paid a salary of $313,130 (2007: $220,302), superannuation of $49,999 (2007: $42,384) and non-monetary benefits of $nil (2007: $3,415).

The Executive Directors did not receive any short-term or long-term incentives, other than salary and superannuation.

Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares of the Company that each Director has at balance date is as follows:

NAME	BALANCE 01/07/07	ACQUISITIONS	DISPOSALS	BALANCE 30/06/08
M Cole	200,000	100,000	–	300,000
B Coleman	200,000	–	–	200,000
M Towers	20,000	–	–	20,000
K Neilson	322,074,841	–	–	322,074,841
M Halstead	22,834,931	–	–	22,834,931

Share-Based Compensation

No Options or Performance Rights have been granted to any Non-Executive or Executive Director.

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.

M Cole, Chairman and Non-Executive Director

– No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.

– Base annual salary, inclusive of superannuation is $213,129.

B Coleman, Non-Executive Director

– No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.

– Base annual salary, inclusive of superannuation is $188,129.

M Towers, Non-Executive Director

– No term of agreement has been set unless the Director is not re-elected by shareholders of the Company.

– Base annual salary, inclusive of superannuation is $188,129.

Directors' Interests in Contracts

The Directors receive remuneration and dividends which are ultimately derived from the net income arising from Platinum Investment Management Limited's investment management contracts.

DIRECTORS' INSURANCE

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

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

MICHAEL COLE
Chairman

KERR NEILSON
Director

Sydney, 21 August 2008

AUDITOR'S INDEPENDENCE DECLARATION

As lead Auditor for the audit of Platinum Asset Management Limited and its controlled entities for the year 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Platinum Investment Management Limited and its controlled entities during the period.

D A PROTHERO
Partner
PricewaterhouseCoopers
Sydney, 21 August 2008

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

CORPORATE GOVERNANCE STATEMENT

The Board of Platinum Asset Management Limited ABN 13 050 064 287 (the "**Company**") is committed to achieving and demonstrating high standards of corporate governance. To this end, the Board looks to the *Corporate Governance Principles and Recommendations* ("**Governance Principles**") set by the Corporate Governance Council of the Australian Securities Exchange ("**ASX**").

A description of the Company's main corporate governance practices is set out below.

The Company and its controlled entities together are referred to as "**the Group**" in this Statement.

Company policies, Charters and codes referred to in this Statement are provided in the "Shareholder Corporate Governance" section of the Company's website at www.platinum.com.au ("**Company's website**").

1. THE BOARD OF DIRECTORS

M Cole (Chair)

B Coleman

M Towers

K Neilson

M Halstead

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

1.1 Role of the Board

The role of the Board is to oversee the activities of the Executive Directors, ensuring 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:

- considering and approving the strategy of the Company;
- monitoring the performance and financial position of the Company;
- assessing both the performance of management and itself;
- overseeing the integrity of financial accounts and reporting;
- reviewing the operations and findings of the Company's risk management, compliance and control frameworks; and
- monitoring the Company's compliance with regulatory, legal and ethical standards.

1.3 Composition of the Board

The Board comprises two Executive Directors (K Neilson and M Halstead) and three Non-Executive Directors (M Cole, B Coleman and M Towers). The qualifications, experience and term of office of the Directors are provided in the Directors' Report on pages 17 and 18.

The Board has determined (according to the criteria summarised below) that M Cole (the "Chair" of the Board), B Coleman and M Towers are "independent" Non-Executive Directors.

Director Independence

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

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

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

1.4 Chair of the Board and Managing Director (CEO)

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

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

The Managing Director is responsible for the management and operation of the Company. Those powers not specifically reserved to the Board under its Charter and which are required for the management and operation of the Company, are conferred on the Managing Director.

1.5 Recommendation 2.4 – Establishment of a Nomination Committee

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

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

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

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

The Board seeks to ensure that:

- its membership represents an appropriate balance between Directors with experience and knowledge of the Group and Directors with an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

1.6 Director Term of Office

The Company's Constitution provides:

- an election of Directors must be held at each AGM and at least one Director (but not the Managing Director) must retire from office; and
- each Director (but not the Managing Director) must retire from office at the third AGM following their last election.

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

1.7 Independent Professional Advice

The Board of Directors' Charter provides that the Directors may (in connection with their duties and responsibilities) seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for reasonableness, but will not impede the seeking of advice.

1.8 Performance Assessment

The Board of Directors' Charter requires:

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

These assessments were undertaken during June 2008.

As a result of these assessments, the Board may implement changes to improve the effectiveness of the Board and corporate governance structures.

2. BOARD COMMITTEES

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Audit and Remuneration Committees. Each is comprised entirely of Non-Executive Directors. The committee structure and membership is reviewed on an annual basis.

Each Committee has its own written Charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. All matters determined by Committees 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 Committees to the Board are addressed in the Charter of the individual Committees.

2.1 Audit Committee

The Audit Committee consists of three Non-Executive and "independent" Directors: M Towers (Chair of the Committee), M Cole, and B Coleman.

Each member of the Committee has the appropriate financial expertise and industry understanding to perform their role. M Towers and B Coleman are Chartered Accountants, and M Cole is a finance professional. A summary of the Directors' qualifications and attendance at Audit Committee meetings is provided in the Directors' Report.

The Audit Committee operates according to its Charter, which is available on the Company's website.

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

- review the financial information presented by management;
- consider the adequacy and effectiveness of the Company's administrative, operating and accounting controls as a means of ensuring the Company's affairs are being conducted by management in compliance with legal, regulatory and policy requirements;
- review any significant compliance issues affecting the Company and monitor actions taken by management;
- review recommendations from the Finance Director and/or external Auditor on key financial and accounting principles to be adopted by the Company; and
- recommend to the Board the appointment of external auditors and monitor the conduct of audits.

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

2.2 Remuneration Committee

The Remuneration Committee consists of three Non-Executive and "independent" Directors: B Coleman (Chair of the Committee), M Cole, and M Towers.

Attendance at Remuneration Committee meetings is provided in the Directors' Report.

The Remuneration Committee operates according to its Charter, which is available on the Company's website.

The Committee advises the Board on remuneration and incentive policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Members of the Remuneration Committee have access to the Company's officers and advisers, and may consult independent experts where the Committee considers it necessary to carry out its duties.

Remuneration Policies

Remuneration for the Executive Directors consists of salary, bonuses or other elements. Any equity based remuneration for Executive Directors will be subject to shareholder approval where required by ASX Listing Rules.

Remuneration for Non-Executive Directors must not exceed in aggregate a maximum sum which shareholders fix in general meeting. The current maximum aggregate amount fixed by shareholders is $2 million per annum (including superannuation contributions). This amount was fixed by shareholders at the 10 April 2007 general meeting.

Executive and Non-Executive Directors may also be reimbursed for their expenses properly incurred as Directors.

Further information is provided in the Remuneration Report.

Remuneration Paid

Remuneration paid to the Executive and Non-Executive Directors for the 2007/2008 reporting year is set out on pages 19 to 21 of the Directors' Report.

3. EXTERNAL AUDITORS

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

On 22 February 2007, PricewaterhouseCoopers was appointed as external Auditor to the Company. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years.

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

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

4. COMPANY POLICIES

4.1 Directors' Code of Conduct

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

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

4.2 Trading in Company Securities

All Directors and staff of the Group must comply with the PTM Share Trading Policy. In summary, the policy prohibits trading in Company Securities:

- when aware of unpublished price-sensitive information;
- from the first day of the month until announcement of the Company's monthly funds under management figure to the ASX;
- from 31 December (each year) until announcement of the Company's half-yearly financial results to the ASX;
- from 30 June (each year) until announcement of the Company's annual financial results to the ASX; and
- during any other black-out period (as notified).

Directors and staff are prohibited from entering into transactions in associated products which operate to limit the economic risk of holding PTM shares over unvested entitlements.

A copy of this policy is available on the Company's website.

4.3 Financial Reporting

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

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

4.4 Continuous Disclosure

The Board is committed to:

- the promotion of investor confidence by ensuring that trading in PTM 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; and
- ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

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

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

4.5 Shareholder Communication

The Board has adopted a Communications Plan which describes the Board's policy for ensuring that shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company. The Company's primary portals are its website, Annual Report, AGM, Half-Yearly Financial Report and monthly notices to the ASX. The Company Secretary oversees and coordinates the distribution of all information by the Company to the ASX, shareholders, the media and the public. A copy of the Communication Plan is available on the Company's website.

4.6 Risk Management and Compliance

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

- there are effective systems in place to identify, assess, monitor and manage the risks of the Company; and
- internal controls and arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The Group 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 Group'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 laws (applicable to the Company) and the Group's policies (including business rules of conduct) is communicated and demonstrated.

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

A summary of the Risk Management Policy is available on the Company's website.

4.7 Business Rules of Conduct

Platinum's Business Rules of Conduct ("**BROC**") applies to all staff of the Group. A redacted copy is available on the Company's website. It communicates the appropriate standards of behaviour, provides a framework for the workplace, and informs staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes.

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

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Income				
Management fees	**238,497**	251,008	**–**	–
Performance fees	**28,665**	37,623	**–**	–
Administration fees	**11,165**	11,068	**–**	–
Interest	**8,890**	22,709	**–**	13,332
Net gains/(losses) on financial assets held at fair value through profit or loss	**(1,206)**	12,281	**–**	11,324
Net gains/(losses) on foreign exchange contracts	**25**	(289)	**–**	–
Net gains/(losses) on foreign currency bank accounts	**(2,962)**	(508)	**–**	–
Dividends	**–**	524	**67,320**	253,553
Other investment	**57**	2,869	**–**	2,869
Total income	**283,131**	337,285	**67,320**	281,078

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Expenses					
Staff		**16,268**	16,999	**–**	225
Custody and unit registry		**10,697**	10,436	**–**	–
Options and Performance Rights	8	**5,176**	657	**–**	–
Business development		**3,263**	3,412	**–**	–
Research		**1,480**	1,454	**–**	59
IPO, restructuring and related costs		**1,187**	21,950	**–**	–
Rent		**1,179**	942	**–**	–
Technology		**946**	1,047	**–**	1
Auditor's remuneration	17	**891**	637	**–**	–
Share registry		**762**	280	**–**	–
Legal and compliance		**578**	662	**–**	–
Depreciation		**500**	562	**–**	–
Mail house		**359**	420	**–**	–
Other professional		**233**	280	**–**	22
Periodic reporting		**211**	200	**–**	–
Other occupancy		**130**	180	**–**	2
Fixed assets scrapped		**8**	526	**–**	–
Miscellaneous		**562**	750	**3**	314
Total expenses		**44,430**	61,394	**3**	623
Profit before income tax expense/(benefit)		**238,701**	275,891	**67,317**	280,455
Income tax expense/(benefit)	2(a)	**76,749**	89,718	**(1)**	12,712
Profit after income tax expense/(benefit)		**161,952**	186,173	**67,318**	267,743
Profit attributable to:					
Equity holders of parent		**161,952**	152,943	**67,318**	267,743
Minority interest		**–**	33,230	**–**	–
Basic earnings per share (cents per share)	9	**28.868**	27.263	**–**	–
Diluted earnings per share (cents per share)	9	**27.621**	27.071	–	–

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

BALANCE SHEET AS AT 30 JUNE 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Financial assets					
Financial assets held at fair value through profit or loss		**1,027**	–	**–**	–
Total financial assets		**1,027**	–	**–**	–
Current assets					
Cash and cash equivalents	12(a)	**171,160**	73,072	**136**	–
Trade receivables		**18,599**	24,072	**–**	19
Related party account		**–**	–	**12,432**	26,152
Interest receivable		**76**	207	**–**	–
Prepayments		**1,052**	842	**–**	–
Total current assets		**190,887**	98,193	**12,568**	26,171
Non-current assets					
Deferred tax assets	2(b)	**4,483**	4,340	**–**	–
Investments	19	**–**	–	**636,320**	631,144
Fixed assets	3	**2,742**	2,711	**–**	–
Total non-current assets		**7,225**	7,051	**636,320**	631,144
Total assets		**199,139**	105,244	**648,888**	657,315
Current liabilities					
Payables	4	**7,686**	9,818	**135**	1
Current tax payable		**12,433**	16,205	**12,433**	26,150
Provisions	5	**1,405**	1,396	**–**	–
Total current liabilities		**21,524**	27,419	**12,568**	26,151
Total liabilities		**21,524**	27,419	**12,568**	26,151
Net assets		**177,615**	77,825	**636,320**	631,164
Equity					
Contributed equity	7(a)	**629,091**	629,091	**629,091**	629,091
Reserves	7(b)	**(582,312)**	(587,470)	**5,815**	657
		46,779	41,621	**634,906**	629,748
Retained profits	10	**130,836**	36,204	**1,414**	1,416
Total equity		**177,615**	77,825	**636,320**	631,164

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

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

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Total equity at the beginning of the financial year	**77,825**	529,446	**631,164**	313,186
Profit for the year	**161,952**	186,173	**67,318**	267,743
Total recognised income and expense for the financial year	**161,952**	186,173	**67,318**	267,743
Income and expenses attributable to:				
Equity holders of parent	**161,952**	152,943	**67,318**	267,743
Minority interest	–	33,230	–	–
	161,952	186,173	**67,318**	267,743
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transactions costs	–	12,301	–	629,091
Share-based payments and other reserves	**5,158**	657	**5,158**	657
Dividends paid	**(67,320)**	(650,752)	**(67,320)**	(579,513)
	(62,162)	(637,794)	**(62,162)**	50,235
Total equity at the end of the financial year	**177,615**	77,825	**636,320**	631,164

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Cash flow from operating activities					
Interest received		**9,021**	22,573	–	13,332
Dividends received		–	524	**67,320**	253,553
Receipts from operating activities		**283,899**	297,797	–	298
Payments for operating activities		**(41,228)**	(53,837)	**(3)**	–
Income taxes paid		**(80,665)**	(144,950)	**(90,459)**	(8,669)
Payments from related parties to pay income tax		–	–	**90,463**	–
Cash flow from operating activities	12(b)	**171,027**	122,107	**67,321**	258,514
Cash flow from investing activities					
Receipts from sale of investments		**14,160**	150,809	–	128,534
Payments for purchases of investments		**(16,578)**	(18,524)	–	–
Purchase of fixed assets		**(539)**	(2,153)	–	–
Proceeds from sale of fixed assets		–	1,592	–	1,592
Cash flow from investing activities		**(2,957)**	131,724	–	130,126
Cash flow from financing activities					
Dividends paid		**(67,185)**	(650,752)	**(67,185)**	(579,513)
Proceeds from the issue of shares		–	12,301	–	–
Payments (to)/from related parties		–	314	–	(10,274)
Cash flow from financing activities		**(67,185)**	(638,137)	**(67,185)**	(589,787)
Net increase/(decrease) in cash and cash equivalents		**100,885**	(384,306)	**136**	(201,147)
Cash and cash equivalents held at the beginning of the financial year		**73,072**	457,385	–	201,147
Effects of exchange rate changes on cash and cash equivalents		**(2,797)**	(7)	–	–
Cash and cash equivalents held at the end of the financial year		**171,160**	73,072	**136**	–

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

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 includes separate financial statements for Platinum Asset Management Limited as an individual entity and the consolidated entity consisting of Platinum Asset Management Limited and its subsidiaries.

(a) Basis of Preparation

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

Compliance with IFRS

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

Historical Cost Convention

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

The preparation of the financial statements in conformity with AIFRS requires the use of certain critical accounting estimates and judgements, of which other than what is included in the accounting policies below, there are none.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by Platinum Asset Management Limited (the "Company" or "Parent Entity") as at 30 June 2008 and the results of all controlled entities for the year then ended. Platinum Asset Management Limited and its subsidiaries together are referred to in this financial report as "the consolidated entity" or "Group".

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of voting rights. The existence or effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Principles of Consolidation CONTINUED

Where control of an entity is obtained during the financial year, its results are included in the consolidated Balance Sheet from the date control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

The effects of all transactions between entities in the consolidated entity are eliminated in full. Accounting policies of various companies within the consolidated entity have been changed to ensure consistency with those policies adopted by the consolidated entity.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated Income Statement and Balance Sheet. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The Group allies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests the difference between any consideration paid and the relevant share acquired of the carrying net assets of the subsidiary is deducted from equity.

(c) 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.

Tax Consolidation Legislation

In accordance with the (Australian) *Income Tax Assessment Act* (1997), Platinum Asset Management Limited is the head entity of the tax consolidated group which includes Platinum Asset Management Limited, Platinum Asset Pty Limited, Platinum Investment Management Limited and McRae Pty Limited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(d) Financial Assets held at Fair Value through Profit or Loss

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

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

(e) 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.

(f) Foreign Currency Translation

Items included in the financial statements of each of the entities in the consolidated group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Revenue Recognition

Management, Administration and Performance Fees

Management, administration and performance fees are recognised as they are earned and all expenses are brought to account on an accruals basis.

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.

(h) 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.

(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) Employee Entitlements

Liabilities for employees' entitlements to salaries, annual leave, sick leave are accrued at nominal amounts calculated on the basis of current salary rates. Liabilities for long service leave which are not to be paid or settled within 12 months of balance date, are accrued in respect of all employees at the present values of future amounts. Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

(m) Share-Based Payments

Platinum Asset Management Limited operates an Option and Performance Rights Plan (OPRP) in which certain employees of its subsidiary, Platinum Investment Management Limited were granted Options or Performance Rights in 2007. Information relating to the OPRP is set out in note 8.

AASB Interpretation 11 AASB 2: *Group and Treasury Share Sale Transactions* addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash-settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group has applied this Standard with the impact being that the expense related to grants made during the year being recognised in the employing entity.

The fair value of options granted under the OPRP is recognised in the consolidated accounts as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the Options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the Options or Performance Rights, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Options or Performance Rights.

At each balance date, the consolidated entity revises its estimates of the number of Options and Performance Rights that are expected to become exercisable. The OPRP expense recognised each period takes into account the most recent estimate. The impact of any revision to the original estimate will be recognised in the Income Statement with the corresponding adjustment to equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) Contributed Equity

Ordinary shares are classified as equity.

(o) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the profit attributable to equity holders by the weighted average number of shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figure used to determine basic earnings per share to take into account the Options and Performance Rights issued under the OPRP (see note 8).

(p) Depreciation

Fixed assets are stated at historical cost less depreciation. Fixed assets (other than in-house software) are depreciated over their estimated useful lives using the diminishing balance method.

The expected useful lives are as follows:

Computer Equipment	4 years
Software	2.5 years
In-house Software	4 years
Communications Equipment	4 – 20 years
Office Fitout	5 – 13⅓ years
Office Furniture and Equipment	5 – 13⅓ years

(q) Rental Expense

Platinum Investment Management Limited has entered into a lease agreement for the premises it occupies and pays rent on a monthly basis. Details of the financial commitments relating to the lease are included in note 16.

(r) Rounding of Amounts

The consolidated entity 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 to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(s) 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.

Cash flows are presented on a gross basis.

(t) New Accounting Standards and Interpretations

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

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

A revised AASB 101 was issued in September 2007 and is applicable to annual reporting period beginning on or after 1 January 2009. It requires the presentation of a Statement of Comprehensive Income and makes changes to the Statement of Changes in Equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or reclassifies items in the financial statements, the entity will need to disclose a third Balance Sheet (Statement of Financial Position), this one being at the beginning of the comparative period. The Company and consolidated entity have not adopted this standard early.

(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's and consolidated entity's segment disclosures. However, the amendment will not affect any of the amounts recognised in the Company's or consolidated entity's financial statements. The Company and consolidated entity have not adopted this standard early.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

(iii) AASB 3: *Business Combinations* and AASB 127: *Consolidated and Separate Financial Statements* and AASB 2008-3: *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective from 1 July 2009)

These standards amend the accounting rules or certain aspects of business combinations and changes to ownership interests in controlled entities. This includes an amendment to accounting rules in relation to instances where the parent entity changes its ownership interest in a subsidiary that does not result in a change of control. The gains are recognised directly in equity. Any amounts paid in excess of the carrying value of minority interests is recorded as a deduction from the parent entity's equity.

The Company and consolidated entity have applied this standard early.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
2. INCOME TAX				
(a) The income tax expense/(benefit) attributable to profit comprises:				
Current income tax provision	**73,637**	97,968	**(1)**	17,093
Deferred tax assets	**(143)**	(3,753)	**–**	–
Deferred tax liabilities	**–**	(4,497)	**–**	(4,381)
Under provision of prior period tax	**3,255**	–	**–**	–
Income tax expense/(benefit)	**76,749**	89,718	**(1)**	12,712
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit. The difference is reconciled as follows:				
Profit before income tax expense	**238,701**	275,891	**67,317**	280,455
Prima facie income tax on profit at 30%	**71,610**	82,767	**20,195**	84,137
Tax effect on amounts which:				
Reduce tax payable:				
– Allowable credits	**(1)**	(37)	**–**	(75,948)
– Non-assessable income	**(1)**	(28)	**(20,196)**	(28)
Tax effect of amounts which are non-deductible				
Increase tax payable:				
– Stamp Duty	**–**	2,265	**–**	–
– Share-Based Payments	**1,553**	197	**–**	–
– Depreciation	**124**	–	**–**	–
– Other non-deductible expenses	**3**	3	**–**	–
Tax effect on adjustment for investment revaluations	**–**	4,551	**–**	4,551
Under provision of prior period tax	**3,255**	–	**–**	–
Adjustment for prior period deferred tax asset	**206**	–	**–**	–
Income tax expense/(benefit)	**76,749**	89,718	**(1)**	12,712

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
2. INCOME TAX CONTINUED				
(b) Deferred tax assets				
The balance comprises temporary differences attributable to:				
Fringe benefits tax	**4**	8	**–**	–
Unrealised foreign exchange losses	**839**	2	**–**	–
Quarantined foreign losses	**–**	206	**–**	–
Capital expenditure not immediately deductible	**2,834**	3,497	**–**	–
Employee entitlements:				
– Long service leave	**168**	150	**–**	–
– Annual leave	**253**	269	**–**	–
Printing and mail house	**29**	34	**–**	–
Periodic reporting	**66**	60	**–**	–
Tax fees	**106**	66	**–**	–
Audit fees	**75**	48	**–**	–
Legal fees	**105**	–	**–**	–
Unrealised capital losses	**4**	–	**–**	–
Deferred tax assets	**4,483**	4,340	**–**	–

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
3. FIXED ASSETS				
Computer equipment (at cost)	**601**	589	–	–
Less: Accumulated depreciation	**(487)**	(386)	–	–
	114	203	–	–
Purchased and capitalised software (at cost)	**1,978**	1,524	–	–
Less: Accumulated depreciation	**(1,250)**	(1,017)	–	–
	728	507	–	–
Communication equipment (at cost)	**132**	128	–	–
Less: Accumulated depreciation	**(93)**	(78)	–	–
	39	50	–	–
Office premises fit out (at cost)	**1,696**	1,671	–	–
Less: Accumulated depreciation	**(146)**	(73)	–	–
	1,550	1,598	–	–
Office furniture and equipment (at cost)	**469**	467	–	–
Less: Accumulated depreciation	**(158)**	(114)	–	–
	311	353	–	–
	2,742	2,711	–	–

Asset movements during the year

Parent entity

	PARENT ENTITY LAND AND BUILDINGS 2008 $'000	PARENT ENTITY LAND AND BUILDINGS 2007 $'000	PARENT ENTITY OFFICE FURNITURE AND EQUIPMENT 2008 $'000	PARENT ENTITY OFFICE FURNITURE AND EQUIPMENT 2007 $'000
Opening	–	1,589	–	2
Additions	–	–	–	–
Disposals	–	(1,589)	–	(2)
Depreciation expense	–	–	–	–
Closing balance	–	–	–	–

3. FIXED ASSETS CONTINUED

Asset movements during the year CONTINUED

Consolidated entity

	CONSOLIDATED COMPUTER EQUIPMENT 2008 $'000	CONSOLIDATED COMPUTER EQUIPMENT 2007 $'000	CONSOLIDATED PURCHASED AND CAPITALISED SOFTWARE 2008 $'000	CONSOLIDATED PURCHASED AND CAPITALISED SOFTWARE 2007 $'000
Opening	**203**	261	**507**	437
Additions	**38**	82	**465**	367
Disposals	**(4)**	(4)	**(1)**	(19)
Depreciation expense	**(123)**	(136)	**(243)**	(278)
Closing balance	**114**	203	**728**	507

	COMMUNI-CATIONS EQUIPMENT 2008 $'000	COMMUNI-CATIONS EQUIPMENT 2007 $'000	OFFICE PREMISES FIT OUT 2008 $'000	OFFICE PREMISES FIT OUT 2007 $'000
Opening	**50**	57	**1,598**	504
Additions	**5**	17	**29**	1,595
Disposals	**–**	(6)	**(3)**	(417)
Depreciation expense	**(16)**	(18)	**(74)**	(84)
Closing balance	**39**	50	**1,550**	1,598

	OFFICE FURNITURE AND EQUIPMENT 2008 $'000	OFFICE FURNITURE AND EQUIPMENT 2007 $'000	LAND AND BUILDINGS 2008 $'000	LAND AND BUILDINGS 2007 $'000
Opening	**353**	390	**–**	1,589
Additions	**2**	110	**–**	–
Disposals	**–**	(101)	**–**	(1,589)
Depreciation expense	**(44)**	(46)	**–**	–
Closing balance	**311**	353	**–**	–

The closing balance of fixed assets disclosed above includes amounts recognised in relation to software in the course of construction and development of $153,000 at 30 June 2008 (2007: $301,000).

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
4. PAYABLES				
Trade creditors	**6,052**	7,863	**–**	–
Goods and Services Tax (GST)	**1,499**	1,954	**–**	–
Unclaimed dividends payable to shareholders	**135**	–	**135**	–
Other payables	**–**	1	**–**	1
	7,686	9,818	**135**	1

Trade creditors are unsecured and payable between seven and 30 days after the Company becomes liable.

Information relating to the Company's exposure of payables to liquidity risk is shown in note 18.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
5. PROVISIONS				
Long service leave	**561**	501	**–**	–
Annual leave	**844**	895	**–**	–
	1,405	1,396	**–**	–

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
6. FRANKING ACCOUNT				
Opening balance based on tax paid and franking credits attached to dividends paid – converted at 30%	**35,873**	210,916	**35,873**	127,784
Franking credits received	**–**	4,542	**–**	5,604
Dividends paid – franked at 30%	**(28,851)**	(277,837)	**(28,851)**	(248,363)
Tax paid or payable	**86,605**	98,231	**86,605**	42,384
Dividends received	**–**	21	**–**	108,464
Estimated franking credits available	**93,627**	35,873	**93,627**	35,873

Franking credits available represents the amount of retained profits that could be paid as dividends and be franked out of existing credits or out of franking credits arising from the payment of income tax in the period subsequent to 30 June 2008.

7. CONTRIBUTED EQUITY AND RESERVES

(a) Movement in share capital (Parent and Consolidated)

DATE	DETAILS	QUANTITY	PRICE PER SHARE ($)	SHARE CAPITAL $'000
1 July 2006	Brought forward Share Capital	100	1	–
3 April 2007	Stock split (subdivided 100 shares into 435,181,783 shares)	435,181,783	–	–
4 April 2007	38,793,950 shares issued in the Company for 100 shares in McRae Pty Limited	38,793,950	5	193,970
5 April 2007	87,024,267 shares issued in the Company for 279,295 shares in Platinum Asset Pty Limited	87,024,267	5	435,121
Contributed equity at 30 June 2008		**561,000,000**		629,091

(b) Movement in reserves

		RESERVES $'000
1 July 2007	Brought forward Capital Reserve	(588,127)
	Movement in 2007 Share-based payments reserve	657
30 June 2008	Equity movement through Options and Performance Rights expected to be exercised and other reserves	5,158
Closing reserves at 30 June 2008		**(582,312)**

In 2007, in preparation for listing, a restructure was undertaken, in which the Company sold or transferred all of its assets, other than its beneficial interest in shares in Platinum Asset Management and sufficient cash to meet its year to date income tax liability.

The Company then split its issued share capital of 100 shares into 435,181,783 ordinary shares. It then took its beneficial interests of Platinum Investment Management Limited to 100%, through scrip for scrip offers, in consideration for the issue of 125,818,217 ordinary shares in the Company.

7. CONTRIBUTED EQUITY AND RESERVES CONTINUED

(b) Movement in reserves CONTINUED

As a result of the share split and takeover offers, the Company had 561,000,000 ordinary shares on issue and beneficially held 100% of the issued share capital of Platinum Investment Management Limited. Subsequently, 140,250,000 shares on issue representing 25% of the issued shares of the Company were sold to the public by existing shareholders.

The brought forward capital reserve at 1 July 2007 represents the difference between consideration paid for the purchase of the minority interests and the share of net assets acquired.

8. OPTION AND PERFORMANCE RIGHTS PLAN (OPRP)

In May 2007, Platinum Asset Management Limited established the OPRP to assist in the reward, retention and motivation of eligible employees and management.

Options

Certain Portfolio Managers, Analysts and other employees were granted Options under the OPRP, to take up shares in Platinum Asset Management Limited at a $5 strike price (the same as the initial offer price for the Platinum Asset Management Limited shares). The Options vest after four years and have a further two year exercise period. Platinum Asset Management Limited initially granted 27,010,467 Options to these employees and this represented 4.81% of the issued shares of Platinum Asset Management Limited.

Performance Rights

Employees who did not receive an invitation to apply for Options under the OPRP were granted Performance Rights to take up Platinum Asset Management Limited shares. The Performance Rights are rights to take up Platinum Asset Management Limited shares and have no strike price.

The Performance Rights vest after three years and have a further two year exercise period. Platinum Asset Management Limited initially granted 372,703 Performance Rights to eligible employees. This represented 0.07% of the issued shares of Platinum Asset Management Limited.

8. OPTION AND PERFORMANCE RIGHTS PLAN (OPRP) CONTINUED

Set out below are summaries of Options and Performance Rights granted and forfeited under the OPRP:

	30 JUNE 2008 QUANTITY	30 JUNE 2007 QUANTITY
Opening balance	**27,158,770**	–
Unvested shares under the OPRP – Performance Rights – 9 May 2007	**12,000**	372,703
Forfeitures of unvested shares: Performance Rights – 10 October 2007	**(4,650)**	–
Forfeitures of unvested shares: Performance Rights – 30 November 2007	**(2,250)**	–
Net movement of unvested shares under the OPRP – Performance Rights	**5,100**	372,703
Unvested shares under the OPRP – Options – 9 May 2007	**–**	27,010,467
Forfeitures of unvested shares: Options – 22 June 2007	**–**	(224,400)
Forfeitures of unvested shares: Options – 13 August 2007	**(561,000)**	–
Forfeitures of unvested shares: Options – 25 January 2008	**(3,085,500)**	–
Net movement of unvested shares under the OPRP – Options	**(3,646,500)**	26,786,067
Closing balance	**23,517,370**	27,158,770

8. OPTION AND PERFORMANCE RIGHTS PLAN (OPRP) CONTINUED

Fair Value of Options and Performance Rights Granted

The assessed fair value at grant date of Options and Performance Rights was $0.82 per Option and $4.26 per Performance Right.

		OPTIONS	PERFORMANCE RIGHTS
Model inputs for Options and Performance Rights granted during the year ended 30 June 2007 included:			
(a)	Exercise price:	$5.00	$0.00
(b)	Grant date:	22 May 2007	22 May 2007
(c)	Expiry date:	22 May 2013	22 May 2012
(d)	Days to expiry (mid-point):	1,825 days	1,095 days
(e)	Share price at grant date:	$5.00	$5.00
(f)	Assumed volatility of the Company's shares:	22.5%	22.5%
(g)	Assumed dividend yield:	5.35%	5.35%
(h)	Risk-free interest rate:	6.11%	6.17%

As the Company listed in May 2007, there is no historical basis to work out the assumed price volatility of the Company's shares.

Therefore, the assumed volatility is based on an analysis of comparable listed funds management companies.

Expenses Arising from Share-Based Payment Transactions

Total expenses arising from share-based payment transactions were as follows:

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Fair value of Options and Performance Rights granted under the OPRP	**5,176**	657	**–**	–
Associated payroll tax expense/(write-back) (included in staff expenses)	**(126)**	1,189	**–**	–
	5,050	1,846	**–**	–

In order to reward and retain key employees, additional Options and Performance Rights may be issued under the OPRP or other incentive plans, over time, in compliance with the *Corporations Act 2001* and relevant ASIC relief.

	CONSOLIDATED 2008	CONSOLIDATED 2007
9. EARNINGS PER SHARE		
Basic earnings per share – cents per share	**28.868**	27.263
Diluted earnings per share – cents per share	**27.621**	27.071
Weighted average number of Ordinary Shares on issue used in the calculation of basic earnings per share	**561,000,000**	561,000,000
Weighted average number of Ordinary Shares on issue used in the calculation of diluted earnings per share	**586,327,522**	564,970,653

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000
Earnings used in the calculation of basic and diluted earnings per share	**161,952**	152,943

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
10. RETAINED PROFITS				
Retained earnings at the beginning of the financial year	**36,204**	500,783	**1,416**	313,186
Net profit	**161,952**	186,173	**67,318**	267,743
Dividends paid	**(67,320)**	(650,752)	**(67,320)**	(579,513)
Retained earnings at the end of the financial year	**130,836**	36,204	**1,414**	1,416

	PARENT ENTITY 2008 CENTS PER SHARE	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 CENTS PER SHARE	PARENT ENTITY 2007 $'000
11. DIVIDENDS (FULLY FRANKED)				
Dividends Paid – fully franked at 30%	**12**	**67,320**	103	579,513
	12	**67,320**	103	579,513

Dividends not Recognised at Year-end

In addition to the above dividends paid, since year-end the Directors have declared the payment of a final dividend of 12 cents per fully paid Ordinary Share, fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 22 September 2008 but not recognised as a liability at year-end is $67,320,000.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000

12. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Cash at bank	**4**	3	**1**	–
Cash on deposit	**171,156**	73,069	**135**	–
	171,160	73,072	**136**	–

Cash on deposit at 30 June 2008 is at call. Information in relation to the Company's exposure to interest rate risk is provided in note 18.

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

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Profit after income tax	**161,952**	186,173	**67,318**	267,743
Adjustment to profit for AIFRS	**–**	29,772	**–**	29,772
Depreciation expense	**500**	562	**–**	–
Fixed assets scrapped	**8**	526	**–**	–
Options and Performance Rights	**5,176**	657	**–**	–
Fair value loss on financial assets held at fair value through profit or loss	**57**	–	**–**	–
Write-off of sundry receivables	**(19)**	–	**–**	–
(Gain)/loss on investments	**1,334**	(44,116)	**–**	(43,965)
(Increase)/Decrease in cash due to exchange rate movements	**2,797**	(7)	**–**	–
Decrease/(Increase) in trade receivables	**5,473**	(1,903)	**–**	881
Decrease/(Increase) in interest receivable	**131**	(136)	**–**	–
Decrease/(Increase) in prepayments	**(210)**	(186)	**–**	23
Decrease/(Increase) in related party account	**–**	–	**13,720**	(15,575)
(Decrease)/Increase in trade creditors and GST	**(2,266)**	5,947	**–**	(3)
(Decrease)/Increase in provisions	**9**	31	**–**	–
(Decrease)/Increase in income tax payable	**(3,772)**	(46,963)	**(13,717)**	24,019
Decrease/(Increase) in deferred tax assets	**(143)**	(3,753)	**–**	–
(Decrease)/Increase in deferred tax liabilities	**–**	(4,497)	**–**	(4,381)
	171,027	122,107	**67,321**	258,514

13. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS TO CAPITAL EXPENDITURE

No contingent assets or liabilities exist at balance date. The consolidated entity has no commitments for significant capital expenditure.

14. SUBSEQUENT EVENTS

No significant events have occurred since the balance date which would impact on the financial position of the consolidated entity as at 30 June 2008 and on the results for the year ended on that date.

15. SEGMENT INFORMATION

The consolidated entity operates its funds management business solely in Australia. However, it generates management and performance share fees from US-based Investment Mandates, as follows:

2008	SEGMENT REVENUE $'000	SEGMENT RESULTS $'000	SEGMENT ASSETS $'000	SEGMENT LIABILITIES $'000
Australia	**243,906**	**199,476**	**160,021**	**21,524**
North America	**39,225**	**39,225**	**39,118**	**–**
	283,131	**238,701**	**199,139**	**21,524**

2007	SEGMENT REVENUE $'000	SEGMENT RESULTS $'000	SEGMENT ASSETS $'000	SEGMENT LIABILITIES $'000
Australia	270,634	209,240	101,390	27,419
Asia – ex Japan	504	504	–	–
Japan	1,737	1,737	–	–
Europe – Euro	2,220	2,220	–	–
Europe – Other	486	486	–	–
North America	61,431	61,431	3,854	–
Unallocated	273	273	–	–
	337,285	275,891	105,244	27,419

16. LEASE COMMITMENTS

Total lease expenditure contracted for at balance date but not provided for in the accounts is as follows:

OPERATING LEASES	**CONSOLIDATED 2008 $'000**	CONSOLIDATED 2007 $'000	**PARENT ENTITY 2008 $'000**	PARENT ENTITY 2007 $'000
Payable not later than one year	**1,254**	1,176	**–**	–
Payable later than one, not later than five years	**5,651**	5,309	**–**	–
Payable later than five years	**2,550**	4,002	**–**	–
	9,455	10,487	**–**	–

17. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the Auditor to the consolidated entity.

	2008 $'000	2007 $'000
Audit services – Statutory	**271**	259
Taxation services – Compliance	**539**	343
Taxation services – Advice	**9**	19
Taxation services – Foreign tax agent	**14**	16
Assurance services – Risk management	**58**	–
	891	637
Advisory services – IPO, restructuring and related costs	**945**	935
	1,836	1,572

18. RISK MANAGEMENT

The consolidated entity's activities expose it to both direct and indirect financial risk, including market risk, credit risk and liquidity risk.

Direct exposure to financial risk occurs through the impact on profit of movements in funds under management ("FUM"), and indirect exposure occurs because Platinum's operating subsidiary is the Investment Manager for various Platinum investment vehicles (which includes investment mandates, various unit trusts, known as the Platinum Trusts and its ASX-Listed investment vehicle, Platinum Capital Limited). This note discusses the direct exposure to risk of the consolidated entity and parent entity.

The Investment Manager's risk management procedures focus on managing the potential adverse effects on financial performance, caused by volatility of financial markets. The Investment Manager uses derivative financial instruments to hedge certain risk exposures.

The direct risks and mitigation strategies are outlined below:

(a) Market Risk

The key direct risks associated with the consolidated entity are those which are driven by investment and market volatility and the resulting impact on FUM, or a reduction in the growth of FUM. Reduced FUM will directly impact on management fee income and profit, because management fee income is calculated as a percentage of FUM. FUM can be directly impacted by a range of factors including:

(i) poor investment performance: absolute negative investment performance will reduce FUM and relative under performance to appropriate market benchmarks could reduce the attractiveness of Platinum's investment products to investors, which would impact on the growth of the business. Poor investment performance could also trigger the termination of Investment Mandate arrangements;

(ii) market volatility: Platinum invests in global markets. It follows that a decline in overseas markets, adverse exchange rate or interest rate movements will all impact on FUM;

(iii) a reduction in the ability to retain and attract investors: which could be caused by a decline in investment performance, but also a range of other factors, such as the high level of competition in the funds management industry;

(iv) a loss of key personnel; and

(v) investor allocation decisions: investors constantly re-assess and re-allocate their investments on the basis of their own preferences.

Investor allocation decisions could operate independently from investment performance, such that funds outflows occur despite positive investment performance.

18. RISK MANAGEMENT CONTINUED

(a) Market Risk CONTINUED

A decline in investment performance will also directly impact on performance share fees and performance fees earned by the consolidated entity. Historically, the amount of performance share fees earned by the consolidated entity have fluctuated significantly from year to year and can be a material source of fee revenue.

Performance share fees are based on a proportion of each Investment Mandate's investment performance. It is calculated at the end of each calendar year and is based upon the actual performance of each Investment Mandate for the year.

Performance fees are paid to the consolidated entity, if the investment return of a Platinum Trust Fund (or Platinum Capital Limited) exceeds a specified benchmark. Should the actual performance of a Platinum Trust Fund/Platinum Capital Limited be lower than the applicable benchmark, no performance fee would be payable for the financial year. As at 30 June 2008, less than 1% of the Platinum Trust's FUM (and Platinum Capital Limited) is subject to the performance fee.

If global equity markets fell 10% over the course of the year and consequently the consolidated entity's FUM fell in line with global equity markets, it follows that management fees would fall by 10%. If there was a 10% decrease in performance of Investment Mandates over the course of the calendar year, which resulted in an actual negative performance for the Investment Mandate for the year, then no performance fee would be earned.

The above analysis assumes a uniform 10% fall across all global equity markets. This is extremely unlikely as there is a large degree of variation in volatility across markets. For example, it is quite feasible for the Japanese market to fall whilst other Asian markets exhibit growth.

To mitigate the impact of investment performance on FUM, the Investment Manager employs hedging strategies to manage the impact of adverse market and exchange rate movements in the funds it manages. Market risk is managed through derivative contracts, futures, options and swaps. Currency risk is managed through the use of forward currency contracts, futures and options on forward contracts.

The section on the following page discusses the direct impact of foreign exchange risk, interest rate risk and price risk on the consolidated entity's financial instruments held at 30 June 2008.

18. RISK MANAGEMENT CONTINUED

(a) Market Risk CONTINUED

(i) Foreign Exchange Risk

The consolidated entity has US Dollar Investment Mandates and derives fees in US dollars from these. In addition, the consolidated entity held US$36,596,652 in cash at 30 June 2008 (2007: US$953,896). Therefore, the consolidated entity is directly exposed to foreign exchange risk arising from movements in exchange rates.

If the Australian Dollar had been 10% lower/higher against the US Dollar, than the prevailing exchange rate used to convert the Mandate fees and foreign currency holdings, with all other variables held constant, then net profit after tax would have been A$6,208,714 higher/A$5,079,621 lower (2007: A$4,640,927 higher/A$3,797,741 lower).

At 30 June 2008, the parent entity does not have direct exposure to foreign exchange risk.

(ii) Interest Rate Risk

At 30 June 2008, the consolidated entity has no interest bearing liabilities, therefore there is little direct exposure to interest rate risk. Similarly, interest rate risk on financial assets is not significant as cash is the only significant asset with interest rate exposure.

At 30 June 2008, the parent entity does not have a significant direct exposure to interest rate risk.

(iii) Price Risk

At 30 June 2008, financial assets held at fair value through profit or loss represented 0.52% of the consolidated entity's total assets (2007: nil). Accordingly, the consolidated entity does not have a significant direct exposure to price risk.

At 30 June 2008, the parent entity does not have a significant direct exposure to price risk.

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the consolidated entity to incur a financial loss. Credit risk arises from the financial assets of the consolidated entity which includes cash and receivables.

The maximum exposure to direct credit risk at balance date is the carrying amounts of financial assets recognised in the balance sheet.

The consolidated entity holds an immaterial amount as collateral as security (eg, margin accounts) and the credit quality of all financial assets that are neither past due nor impaired is consistently monitored by the consolidated entity. At 30 June 2008, all cash and receivables are collectable within 30 days and there are no amounts which are past due or impaired.

18. RISK MANAGEMENT CONTINUED

(b) Credit Risk CONTINUED

Any default on the value of a financial instrument held within any of the Platinum Trusts, Platinum Capital or the Investment Mandates, will result in reduced investment performance. There is no direct loss for the consolidated entity other than through the ensuing reduction in FUM, as noted above in market risk. The Investment Manager employs standard market practices for managing its credit exposure.

The parent entity does not have a significant direct exposure to credit risk.

(c) Liquidity Risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting obligations associated with financial liabilities.

The consolidated entity manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities and paying management fees to meet operating expenses on a regular basis. Management monitors its cash position on a daily basis and prepares cash forecasts on a weekly basis.

Contractual Maturity Analysis

At 30 June 2008, the consolidated entity has an obligation to settle trade creditors of $6,051,928 (2007: $7,862,376) between seven and 30 days, Goods and Services Tax liability of $1,499,345 (2007: $1,954,292) within 21 days and estimated income tax payable of $12,433,330 (2007: $16,205,895) within approximately five months and unclaimed dividends payable to shareholders of $135,132 (2007: $nil), long service leave of $561,000 (2007: $501,000) and annual leave of $843,608 (2007: $895,201) all payable at call.

At 30 June 2008, the consolidated entity has sufficient cash reserves of $171,025,318 (2007: $73,071,942) and a further $18,673,953 ($2007: $24,279,110) of receivables collectable within 30 days to cover these liabilities and accordingly the consolidated entity does not have a significant direct exposure to liquidity risk.

At 30 June 2008, the parent entity had an estimated obligation to pay Australian taxation authorities $12,433,330 (2007: $26,149,615) within approximately five months of balance date. As noted above, the consolidated entity has sufficient liquid assets which are available to the parent entity to settle taxation liabilities. Accordingly, the parent entity does not have a significant direct exposure to liquidity risk.

(d) Fair Value Estimation

Please refer to note 1(d).

18. RISK MANAGEMENT CONTINUED

(e) Capital Risk Management

(i) Capital Requirements

The Company has limited capital requirements and its need for retained profits is slight. Owing to the volatility caused by the performance share fee component of revenue, the Directors smooth dividend payments and have a policy of paying out 80% to 90% of net profit after tax. This is a policy, not a guarantee.

(ii) External Requirements

In connection with operating a funds management business in Australia, the operating subsidiary of the Company (which conducts the funds management business) is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities and Investment Commission (ASIC), requires the subsidiary to:

- hold at least $5 million Net Tangible Assets in respect of its managed investments and custody services;
- have Adjusted Surplus Liquid Funds ("ASLF") of:
  - $50,000; plus
  - 5% of adjusted liabilities between $1 million and $100 million; plus
  - 0.5% of adjusted liabilities for any amount of adjusted liabilities exceeding $100 million, up to a maximum ASLF of $100 million.
- have at least $50,000 in Surplus Liquid Funds ("SLF") (i.e. its own funds in liquid form).

The operating subsidiary has complied with all externally imposed requirements to hold an AFSL during the financial year.

19. INVESTMENTS

The Company held the following investments.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2007 $'000
Shares in Platinum Asset Pty Limited	–	–	**436,518**	436,518
Shares in McRae Pty Limited	–	–	**193,969**	193,969
Shares in Platinum Investment Management Limited – OPRP (see note 8)	–	–	**5,833**	657
Shares in Platinum Asset Management Pte Limited	–	–	–	–
	–	–	**636,320**	631,144

20. THE COMPANY

Platinum Asset Management Limited ("the Company") is a company limited by shares, incorporated and domiciled in New South Wales. Its registered office and principal place of business is Level 8, 7 Macquarie Place, Sydney, NSW 2000.

The Company is the ultimate holding company for the entities listed in note 21.

21. THE SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

(a) McRae Pty Limited (incorporated in Australia) – (100% owned by the Company).

(b) Platinum Asset Pty Limited (incorporated in Australia) – (100% owned by the Company).

(c) Platinum Investment Management Limited (incorporated in Australia) – (indirectly 100% owned by the Company).

(d) Platinum Asset Management Pte Ltd (incorporated in Singapore) – (indirectly 100% owned by the Company).

22. RELATED PARTY DEALINGS

(a) Directors' Remuneration

Details of all remuneration paid to Directors is disclosed in the Directors' Report.

(b) Fees Received

Platinum Investment Management Limited provides investment management services to related party unit trusts – the Platinum Trust Funds and to the ASX-listed investment company, Platinum Capital Limited. Platinum Investment Management is entitled to receive a monthly management fee from Platinum Capital Limited and the Platinum Trust Funds, a monthly administration fee from the Platinum Trust Funds and in some instances a performance fee (which is calculated annually) based upon the relevant Funds investment return over and above a specified benchmark. The total related party fees received and receivable by Platinum Investment Management Limited for the year ended 30 June 2008 was $202,899,907 (2007: $202,887,100).

DIRECTORS' DECLARATION

In the Directors' opinion,

(a) the financial statements and notes set out on pages 32 to 64 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 consolidated entity's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Platinum Asset Management 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 19 to 21 of the Directors' Report comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

MICHAEL COLE
Chairman

KERR NEILSON
Director

Sydney, 21 August 2008

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASSET MANAGEMENT LIMITED AND ITS CONTROLLED ENTITIES

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REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Platinum Asset Management Limited and its controlled entities, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Platinum Asset Management Limited and its controlled entities.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Platinum Asset Management Limited and its controlled entities is in accordance with the *Corporations Act 2001*, including:

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

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

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

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 6 to 7 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Platinum Asset Management Limited and its controlled entities for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

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

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Prothero

D A PROTHERO
Partner

Sydney, 21 August 2008

The 30 June 2008 comparative financial results represented in the Income Statement includes income and expenses, which were derived by the Company, when it was private in nature. The Pro-forma Income Statement presented below for 2007 excludes the income and expenses of the private company and only shows the income and expenses of Platinum's funds management operations. The 30 June 2008 Pro-forma Income Statement is the same as that presented on pages 32 and 33 because the private company realised its investments in preparation for listing in 2007.

PRO-FORMA INCOME STATEMENT

for the year ended 30 June 2008

	2008 $'000	2007 $'000
Income		
Management fees	**238,497**	251,008
Performance fees	**28,665**	37,623
Administration fees	**11,165**	11,068
Interest	**8,890**	9,377
Dividends	**–**	13
Net gains/(losses) on financial assets held at fair value through profit or loss	**(1,206)**	956
Net gains/(losses) on foreign exchange contracts	**25**	(289)
Net gains/(losses) on foreign currency bank accounts	**(2,962)**	(508)
Other investment	**57**	–
Total income	**283,131**	309,248

PRO-FORMA INCOME STATEMENT CONTINUED

	2008 $'000	2007 $'000
Expenses		
Staff	**16,268**	16,774
Custody and unit registry	**10,697**	10,436
Options and Performance Rights	**5,176**	657
Business development	**3,263**	3,412
Research	**1,480**	1,395
IPO, restructuring and related costs	**1,187**	21,950
Rent	**1,179**	942
Technology	**946**	1,046
Auditor's remuneration	**891**	637
Share registry	**762**	280
Legal and compliance	**578**	662
Depreciation	**500**	562
Mail house	**359**	420
Other professional	**233**	257
Periodic reporting	**211**	200
Other occupancy	**130**	178
Fixed assets scrapped	**8**	526
Miscellaneous	**559**	436
Total expenses	**44,427**	60,770
Profit before income tax expense	**238,704**	248,478
Income tax expense	**76,750**	77,006
Profit after income tax expense	**161,954**	171,472
Basic earnings per share (cents)		
Based on the issue of 561,000,000 ordinary shares	**28.869**	30.565
Diluted earnings per share (cents)	**27.622**	30.351