Slow motion forward

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Directors

Michael Cole
Margaret Towers
Malcolm Halstead
Bruce Coleman
Kerr Neilson

Secretary

Malcolm Halstead

Shareholder Liaison

Liz Norman

Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000

Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500
Fax +61 2 9254 5555

Share Registrar

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000

Phone 1300 855 080 (Australia only)
Phone +61 3 9415 4000
Fax +61 3 9473 2500

Auditors and Taxation Advisors

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

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Website

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2009 Annual Report
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Over the years we have managed to assemble some diverse and interesting material for investors to consider. Last year's offering to Platinum shareholders, which in essence contrasted China and Russia, proved timely in the subsequent economic chaos. The vulnerabilities highlighted in *The Myth of the Authoritarian Model* proved highly prescient in Russia and if heeded would have been highly beneficial to investors.

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

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

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

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

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

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

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

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

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

Kerr Neilson

Managing Director August 2009

Possible Futures

Jonathan Wilmot

From Credit Suisse Global Investment Returns Yearbook 2009

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

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

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

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

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

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

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

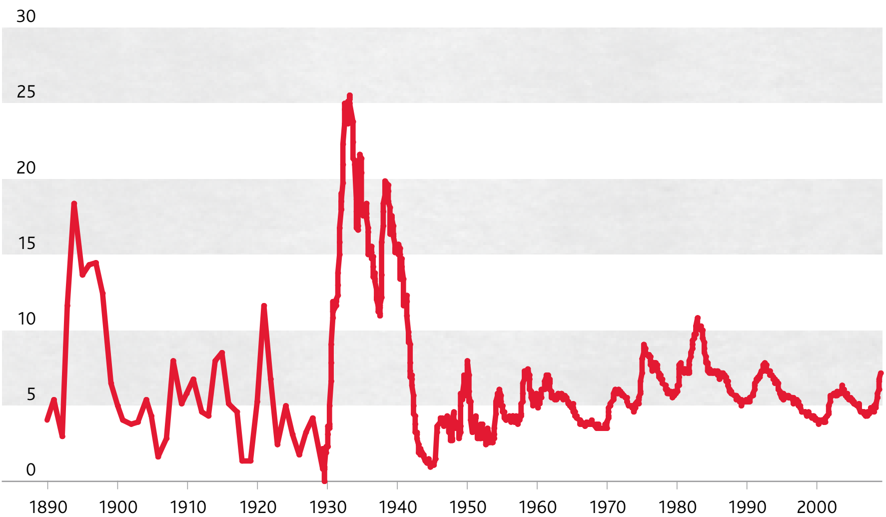
> ‘Despite the periodic upheavals, the late 19th century saw the greatest leap forward in global prosperity the world had experienced up until then.’

A tale of two depressions

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

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

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



Source: Credit Suisse

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

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

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

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

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

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

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

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

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

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

On sudden changes in the channels of trade

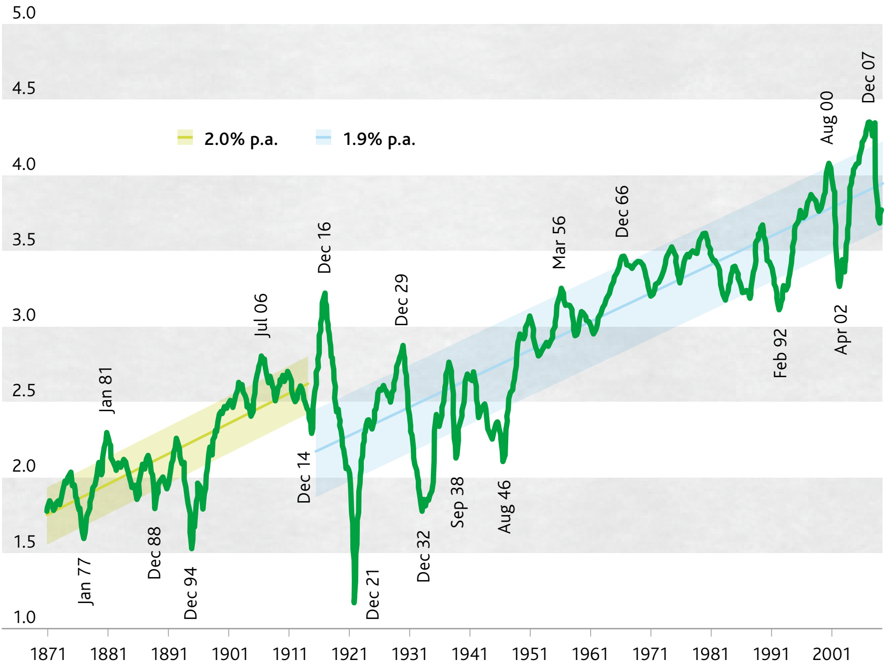
"The commencement of war after a long peace, or of peace after a long war, generally produces considerable distress in trade. It changes in a great degree the nature of the employments to which the respective capitals of countries were before devoted; and during the interval while they are settling in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

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

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

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

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



Source: Credit Suisse

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

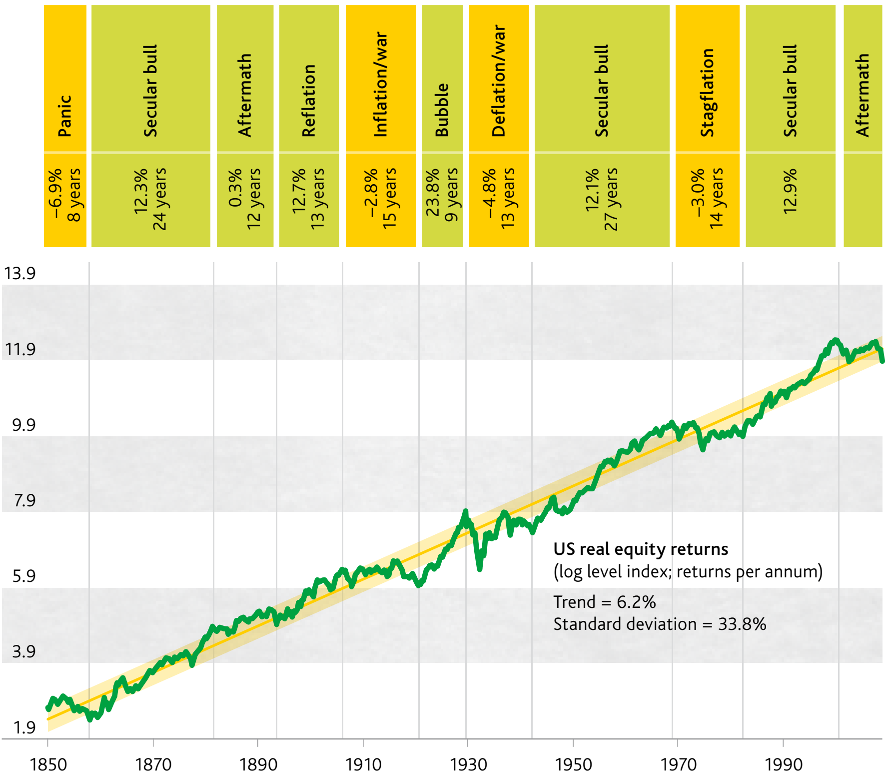
There would seem to be only two possible explanations. Either firms today have far more operational gearing to the real economy, so that smaller changes in capacity utilization have a larger impact on profits. Or the corporate sector – financial and non-financial – uses less share capital per unit of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

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

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

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

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



Source: Credit Suisse

Credit and capital

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

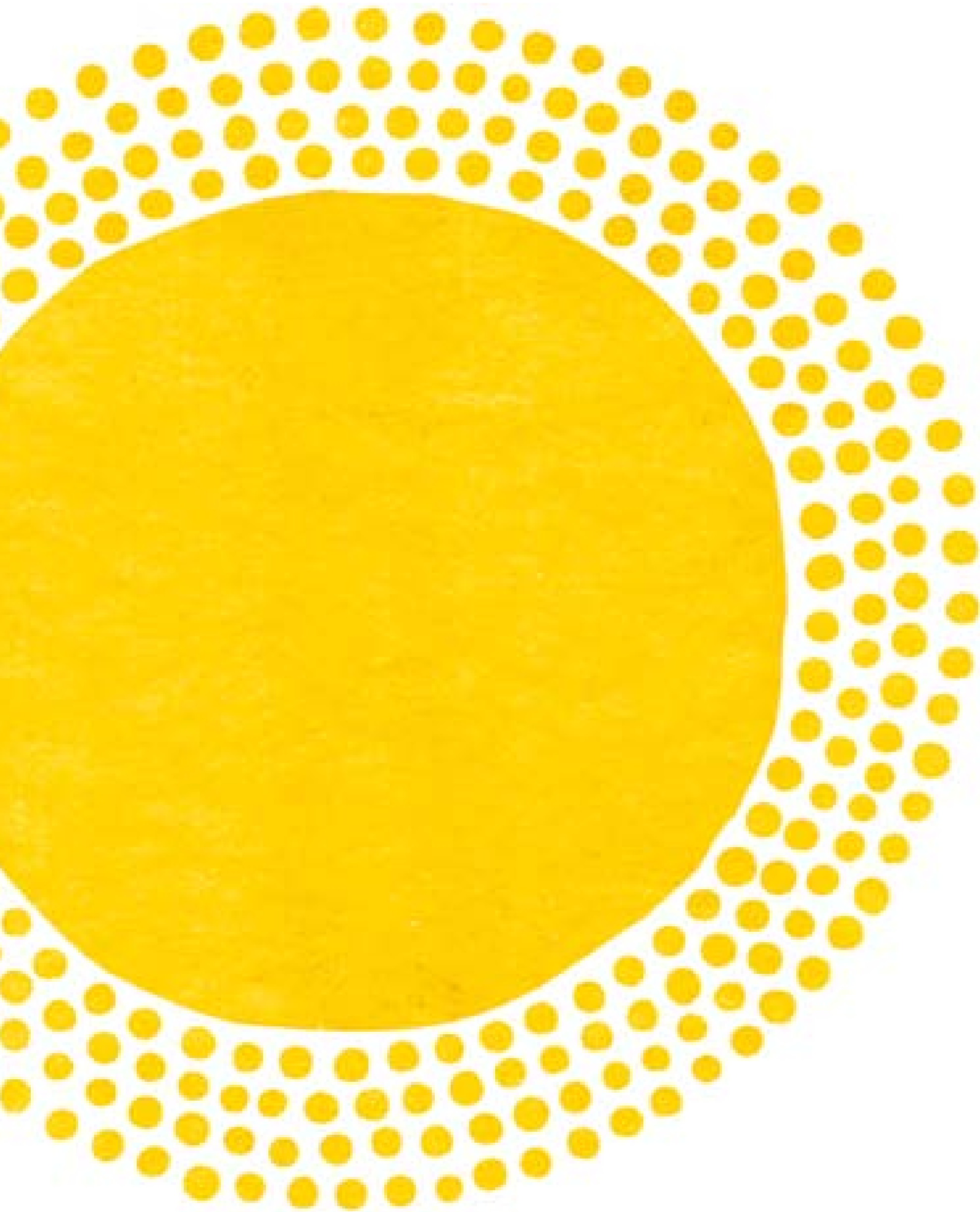
Yet it is also impressive to note how resilient capitalism has been over at least 150 years of periodic upheaval. The best data series we have for very long equity market performance is, not surprisingly, for the USA. And looking at inflation adjusted total returns (dividends plus capital gains) since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

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

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

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

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



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

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

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

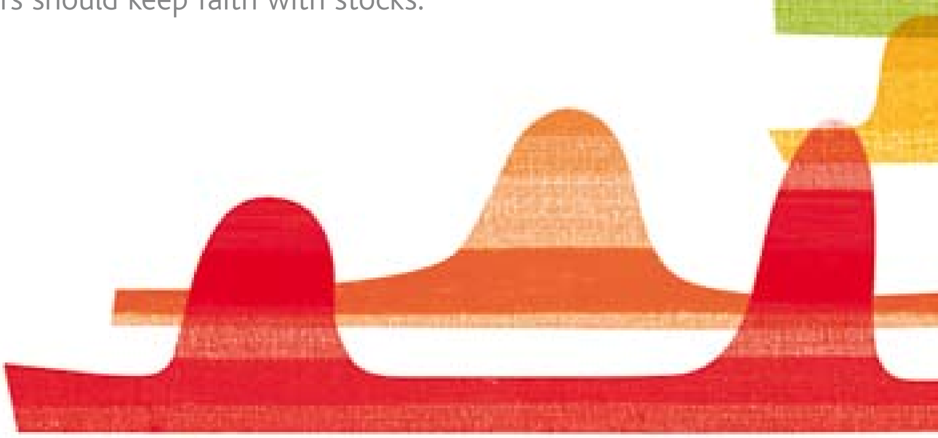
Jonathan Wilmot Chief Global Strategist, Credit Suisse Investment Banking
From *Credit Suisse Global Investment Returns Yearbook 2009,* February 2009, "*Possible Futures*"

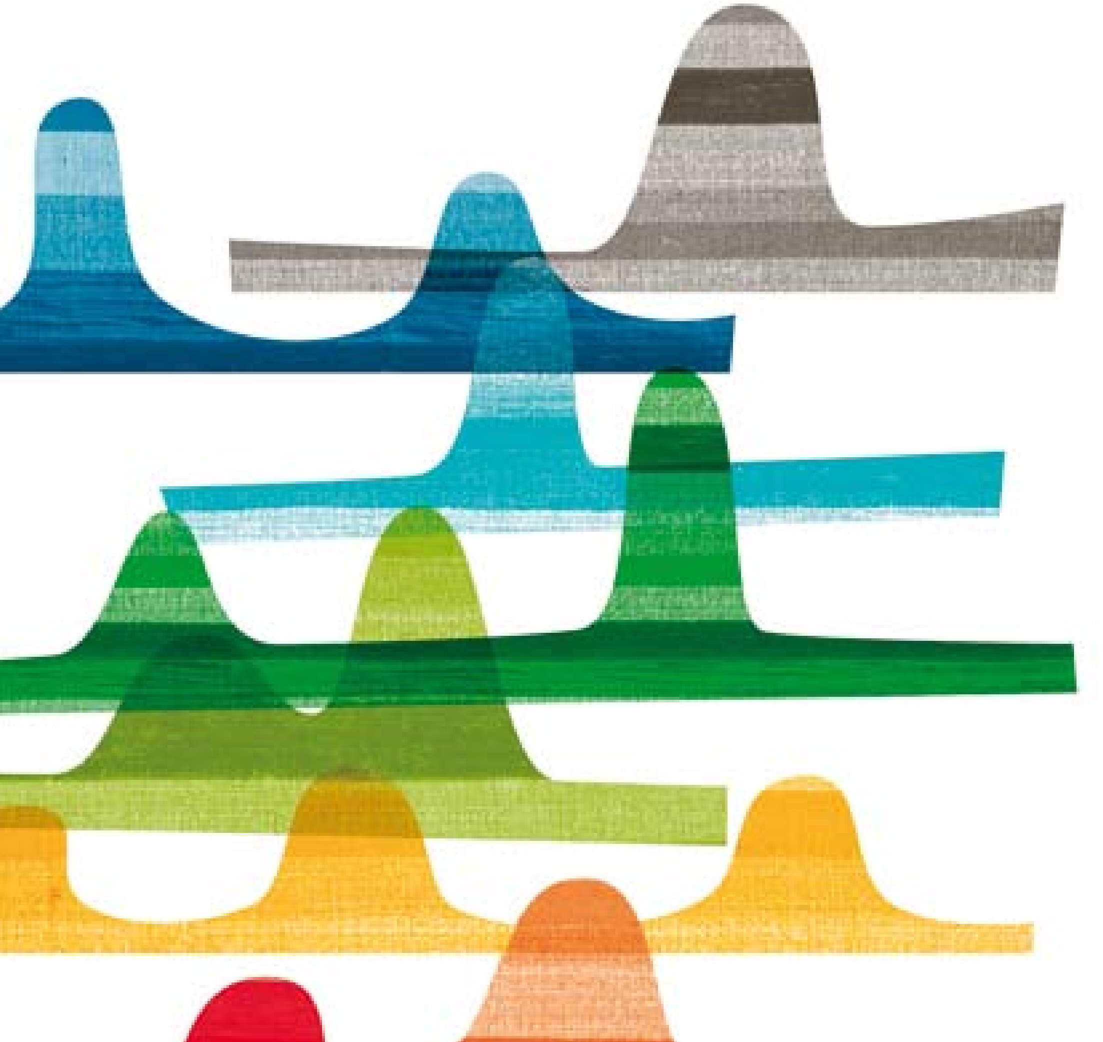
Keeping faith with stocks

Elroy Dimson, Paul Marsh and Mike Staunton

From Credit Suisse Global Investment Returns Yearbook 2009

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





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

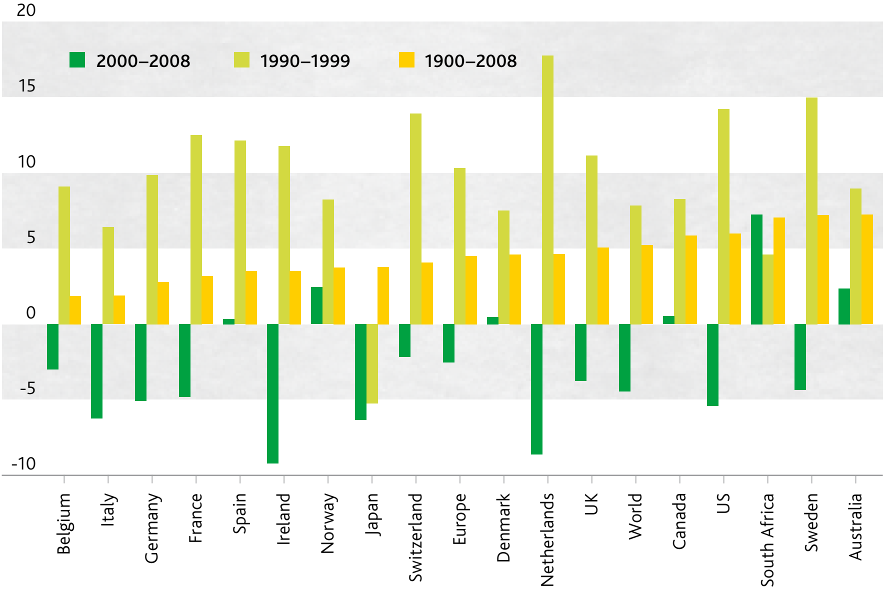
The last decade has been the lost decade. The 21st century began with a savage bear market. By its nadir in March 2003, US stocks had fallen 45%, UK and Japanese equities had halved, and German stocks had fallen by two-thirds. Markets then staged a remarkable recovery, only to plunge again late in 2007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

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

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

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

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



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

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

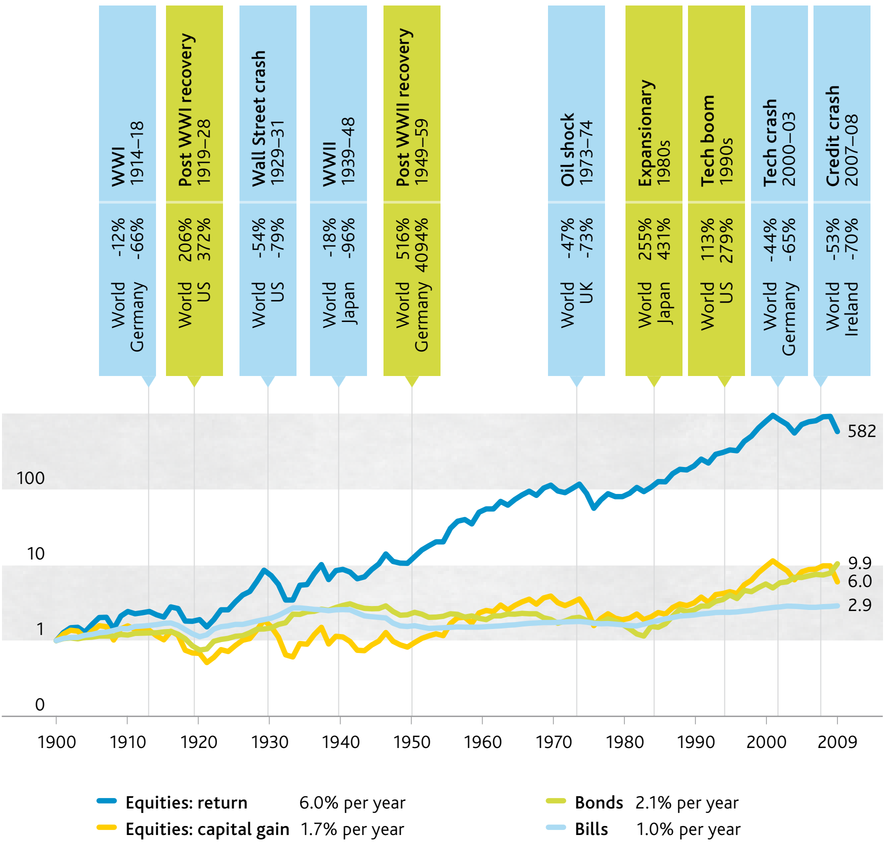
The 1990s contrast starkly with the opening years of the 21st century. Yet the 1990s are just as misleading. Golden ages, by definition, recur infrequently. To understand risk and return in the markets – which is the Yearbook's underlying rationale – we need to examine much longer periods than one, or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

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

Long run returns and extreme periods

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

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



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

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

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

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

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

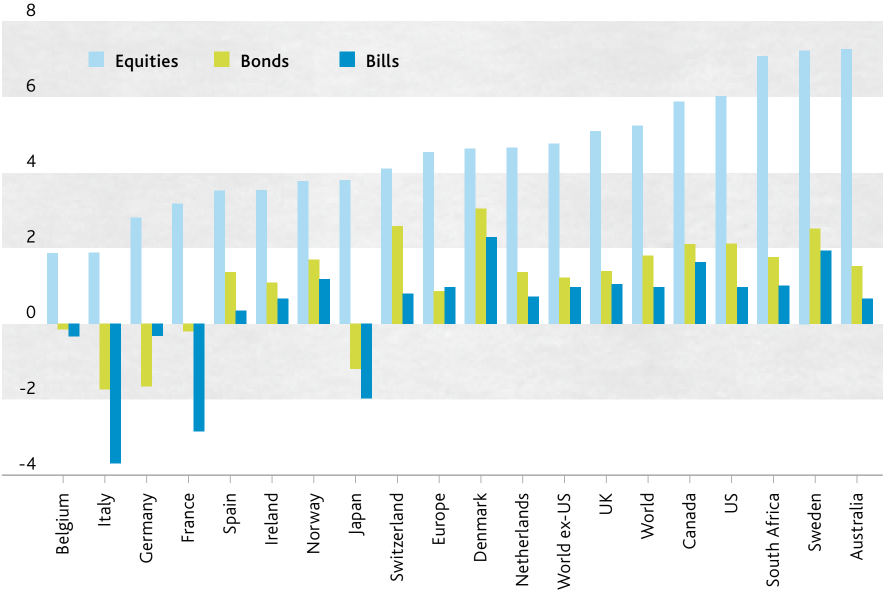
The green boxes in Figure 2 summarize real returns over four "golden ages." The 1990s, which we highlighted in Figure 1, was the most muted of the four, with the world index showing a real return of 113%. The world index rose by appreciably more during the 1980s (255% in real terms) and the two post-world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

Long run returns around the world

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

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

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



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

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

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

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

The historical equity risk premium

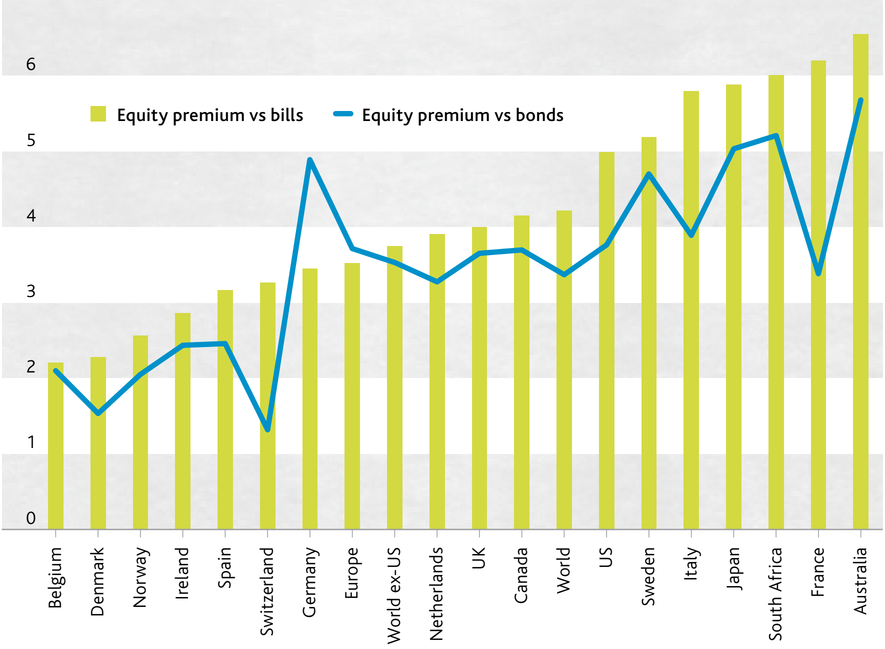
Over the long run, investment in equities has proved rewarding, but has been accompanied by significant volatility. Investors dislike volatility and they will invest in equities only if they expect compensation for this risk. What we would really like to know is what risk premium investors require today,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

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

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

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

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



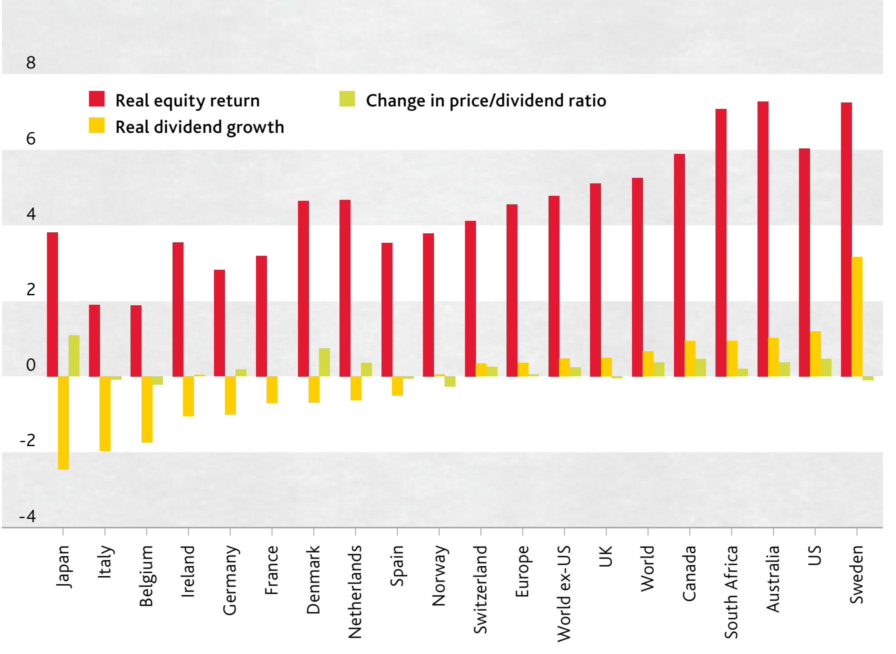
Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists,* Princeton University Press, 2002

Risk premium components

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

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

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



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

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

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

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

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

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

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

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

Investors' expectations

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

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

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

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

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

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

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

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

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

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

Contents

Chairman's Report

Performance

The performance of your Company continues to be adversely impacted by the fall out from the financial crisis. Funds Under Management ("FUM") fell to $13.5 billion in February 2009 before recovering to $14.0 billion at 30 June 2009. FUM declined 6.7% (or $1 billion) from the end of June 2008. The FUM decline was largely due to investors withdrawing monies ($2 billion), income distributions to investors ($1.1 billion) and somewhat offset by positive investment performance ($2.2 billion). It is pleasing to note that whilst the funds provided liquidity to investors during the crisis, investment performance was both positive and not too impacted by these withdrawals.

It should be noted that the short and long-term performance of the Company's investment products has been and remains outstanding. The Managing Director's letter details the returns and movement in FUM.

The operating profit before tax earned by the consolidated entity for the year ended 30 June 2009 is $181.4m (2008: $238.7m), which represents a decline of 24%. Similarly, operating profit after tax for the year ended 30 June 2009 is $126.1m (2008: $162.0m), a decline of 22.2%. The reduction in operating profit is primarily because of:

- a decline in management fees of 21.4% from $238.5m in 2008 to $187.4m in 2009; and
- virtually no absolute performance fees being earned in 2009. Total performance fees declined from $28.7m in 2008 to $6.2m in 2009. It is worth noting that given the huge decline in global share markets over the last 12 months, earning any relative performance fees is a strong achievement.

Diluted earnings per share for the year ended 30 June 2009 is 21.62 cents per share.

Dividend

The final dividend will be a fully franked final dividend of 12 cents per share, payable on 22 September 2009.

This is in addition to the fully franked interim dividend of 8 cents per share, paid on 13 March 2009. The total dividend payout ratio is in accordance with the Dividend Policy (of paying out 80-90% of net profit after tax) 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.

The Board and its Committees

Both the Remuneration and Audit Committees had a productive year.

During the year, the Remuneration Committee, chaired by Mr Coleman and in conjunction with the Deputy CIO, Mr Clifford, implemented the Fund Appreciation Rights Plan (FARP) which is part of the medium-term incentive (MTI) remuneration programme which I foreshadowed in last year's report. The MTI remuneration programme aligns the MTI remuneration with investment performance of the Platinum Trust Funds. The FARP commenced operation on 1 April 2009.

In addition, in June 2009, a grant of options to some staff occurred.

Both initiatives are designed to promote the retention of staff.

The Audit Committee, chaired by Mrs Towers and in conjunction with Platinum's Compliance and Risk team, has had a productive year continuing to monitor and manage risks and internal controls within the Company.

Monitoring costs

Expenses incurred by Platinum continue to be closely monitored. The Company continues with its programme of cost savings in a range of areas, other than in compensation, as noted above. However, 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.

Environment

Your Company remains carbon neutral, having purchased carbon credits to offset its carbon emissions. Your Company continues to strive toward further reductions.

Conclusion

It is difficult to forecast or predict what will happen to our fee base and profit over the course of the next 12 months, other than to say our relative performance when compared to the relevant MSCI index remains encouraging across all our investment vehicles. We are hopeful this will translate to higher net inflows and ultimately higher dividends for shareholders.

Michael Cole

Chairman

Managing Director's Letter to Shareholders

Fund Performance

Platinum Asset Management has had an unusually successful year in terms of managing money. As the table shows, virtually all of our Funds have trounced their respective benchmarks and given positive returns.

Platinum Trust Fund's Performance (compound pa, to 30 June 2009)

FUND	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Platinum International Fund	18.2	1.7	5.6	12.5
MSCI* All Country World Net Index	-16.1	-9.6	-1.9	-2.2
Platinum Unhedged Fund	5.1	1.0	–	–
MSCI All Country World Net Index	-16.1	-9.6	–	–
Platinum Asia Fund	10.3	9.4	19.9	–
MSCI Asia ex Japan Net Index	-2.7	1.0	9.0	–
Platinum European Fund	-5.8	-5.4	2.0	12.9
MSCI All Country Europe Index	-23.7	-11.2	-0.7	-0.7
Platinum Japan Fund	30.8	-3.0	4.7	10.8
MSCI Japan Index	-8.7	-12.7	-3.5	-3.1
Platinum International Brands Fund	11.0	-1.2	8.2	–
MSCI All Country World Net Index	-16.1	-9.6	-1.9	–
Platinum International Health Care Fund	3.0	-4.2	-0.8	–
MSCI All Country World Health Care Index	1.7	-6.9	-2.7	–
Platinum International Technology Fund	23.4	1.9	3.3	–
MSCI All Country World IT Index	-7.4	-6.6	-4.3	–

* Morgan Stanley Capital International
Source: Platinum and MSCI

Fund returns have been calculated by Platinum using the unit prices for the standard retail investment option and represent the combined income and capital return (for the named Fund) for the specific period. Returns are net of ongoing fees and costs, are pre-tax, and assume the reinvestment of distributions. Index returns have been calculated by Platinum using information sourced from MSCI Inc.

The Business

One reads brokers' reports on the asset management business, some that conjure up highly convincing arguments for participant rationalisation or others that focus on the virtues of companies which are able to cover the entire gamut of financial services as a sort of *one-stop-shop* – an umbrella brand to accommodate one's own wrap platform, one's own financial planners as well as provide managed funds across all asset classes; shares, bonds, property and cash management services. This is a wonderful construct – being all things to all people – but carries a lethal flaw; the complexities of the model tend to result in an imperfect experience by the target of these machinations, namely you, the public.

However, if you are attracted to its virtues, you will struggle with Platinum's innumerable deficiencies in this context. We have one simple weapon; being well-above average at the one thing most people want – performance and wealth preservation! The very fact that we do not have a second or third string to our bow makes us all the more anxious to focus on that single objective. Whether this will counter shortcomings in the one-stop-shop model remains to be seen. The simplicity of our purpose will, however, have its attractions with end users and with those gatekeepers who share our understanding of investing to protect against loss.

The Team

There is little distinction between analysts and fund managers at Platinum. The latter tend to be the more experienced analysts but not exclusively so. The reward structure has undergone further change (with valuable input from the remuneration committee) to effect closer attribution of the contribution of each individual as well as to lift the potential reward for truly outstanding performance. Outperformance of 20% pa over three years would lead to a substantial lift in the bonus payouts.

In addition to the cash bonus (which is smoothed for recurrent success), the firm has issued stock options to several members of staff, and not fund management staff alone, who are regarded as invaluable to securing the future potential of the company. (The source of these grants was the lapsing of options that had earlier been awarded to former staff members.)

Managing Director's Letter to Shareholders CONTINUED

Since the beginning of 2008, we have lost two founding shareholders, James Simpson and Toby Harrop. Both made an outstanding contribution to the organisation, not only as fund managers but also as tutors to others in the team and not just newcomers! We will miss them both, having worked together for more than 16 years. Their going has interesting implications for the dynamics within the team and thanks to steady recruitment, allows others to grow and expand their roles.

Costs

The bonus structure mentioned above, which is predicated on both absolute and relative performance, should in theory generate more than sufficient additional funds under management (FUM) to be self-funding. Apart from this cost, virtually all other outgoings should be relatively stable with a small inflation creep. Salaries may rise a little faster than the rest of our costs because of rising seniority among our analysts and a gradual increase in the production team. The efficiency of the other departments is impressive and the complement adequate for higher levels of activity.

Profits

There has been a change in the upside potential of our profits stemming from the loss of performance share fee mandates. This segment of our FUM has shrunk disproportionately on account of redemptions which were accentuated by many other fund managers enforcing or imposing lock-up clauses in their business terms. As a consequence, funds like Platinum, which remained fully open to redemptions, suffered disproportionately as investors sought liquidity. Now, some may return and the performance of these Bermuda-based funds would warrant this, but even so, there is an averaging effect of FUM which for the moment is deleterious. There was also a loss of FUM in the locally sold funds amounting to $235mn but encouragingly, this trend seems to have reversed since January 2009.

Funds Under Management ($mn, to 30 June 2009)

FUND	OPENING BALANCE (30 JUNE 2008)	FLOWS	DISTRIBUTION	INVESTMENT PERFORMANCE	CLOSING BALANCE (30 JUNE 2009)
Platinum Trust Funds	10,894	(725)	(1,129)	1,619	10,659
MLC-Platinum Global Fund	1,740	(361)	–	143	1,522
Management Fee Mandates	1,053	(30)	–	198	1,221
Performance Share Fee Mandates	1,279	(928)	–	213	564
TOTAL	**14,966**	**(2,044)**	**(1,129)**	**2,173**	**13,966**

Source: Platinum

We are occasionally asked about pressure on fees. This harks back to the opening paragraph. If the product is sound and the user gets a fair deal, there is a general acceptance that quality comes at a higher price. Internally, we believe that we offer *unusual value-through-time* and contrary to the behaviour of some, see discounting to gather yet more funds, as being counter to the interests of the existing investors and therefore the firm. An extraordinary statistic may serve the point.

Should you have placed A$100,000 in 1987 with myself and Andrew Clifford (Platinum's Deputy Chief Investment Officer) when we managed an international fund at our previous employer and then had you switched to the Platinum International Fund in 1995, and reinvested all the distributions over this 21 year period, your investment would have grown to approximately $2.9 million. The same exercise of investing in the MSCI World Index would have seen your A$100,000 rise to $350,000!!

New Initiatives

We have been fortunate enough to have lured Andy Grimes to join us to communicate our message to professional investors. Andy has a broad experience in the real world, having worked as an asset consultant for Watson Wyatt in Australia, a client relationship manager and UK Equity Fund Manager for Schroders Investment Management in the UK, and various consulting roles for companies such as McKinsey and Co. He has now laid the ground work for Platinum's institutional profile by briefing potential professional investors about our approach to looking after money and offering reasons why they should consider us for this role.

Managing Director's Letter to Shareholders CONTINUED

In keeping with earlier comments regarding fund collection and the role of sales, please understand that the function in this new initiative is principally one of conveying an understanding of what we actually do with people's money rather than some propagated *wish list*.

Is there a policy contradiction you may ask with our actively broadening our market base? We do not believe so. Over the next few years we believe it is quite possible that the recent experience suffered by private investors may dull the delights of equity ownership. To that end we would not like to be funnelled into a narrowing stream.

Outlook

Should we continue to manage funds in our traditional way, though now enhanced with greater resources and complementary support, FUM should gradually rise. This can be so, notwithstanding the annual distribution of the taxable gains.

We will be surprised if our long and sound track record does not find appeal among the professional funds. Further, we believe these potential users will, in aggregate, be prepared to pay performance fees, albeit with a change in the base fee. In selectively gathering funds from professional sources, we shall guard against it being to the detriment of our existing client base.

Kerr Neilson

Managing Director

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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 2009:

	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	5,779
1,001 – 5,000	15,483
5,001 – 10,000	3,066
10,001 – 100,000	1,562
100,001 and over	56
Total number of holders	25,946
(ii) Number of holders of less than a marketable parcel	131
(iii) Percentage held by the 20 largest holders	80.51%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of listed equity securities as at 18 August 2009 are listed below:

	NUMBER OF SHARES	%
Platinum Investment Management Limited	230,103,790	41.02
J Neilson	136,250,000	24.29
JP Morgan Nominees Australia Limited	13,374,532	2.38
Citicorp Nominees Pty Limited	12,066,054	2.15
Jilliby Pty Limited	11,040,000	1.97
HSBC Custody Nominees (Australia) Limited	10,348,946	1.84
Charmfair Pty Limited	10,000,000	1.78
National Nominees Limited	5,729,463	1.02
J Clifford	5,000,000	0.89
Xetrov Pty Limited	5,000,000	0.89
ANZ Nominees Limited	4,285,751	0.76
Citicorp Nominees Pty Limited	2,074,084	0.37
Queensland Investment Corporation	1,522,239	0.27
AMP Life Limited	982,579	0.18
Cogent Nominees Pty Limited	825,231	0.15
UBS Wealth Management Australia Nominees Pty Limited	747,528	0.13
RBC Dexia Investor Services Australia Nominees Pty Limited	672,154	0.12
RBC Dexia Investor Services Australia Nominees Pty Limited	553,125	0.10
Smallco Investment Manager Limited	537,518	0.10
Questor Financial Services Limited	536,863	0.10

Shareholder Information CONTINUED

Voting Rights

Ordinary Shares

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

Platinum's Commitment to Carbon Neutrality

Platinum Asset Management remains carbon neutral, having purchased carbon credits to offset its carbon emissions. Your Company continues to strive toward further reductions.

Distribution of Annual Report to Shareholders

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

The Directors have decided to mail out the 2009 Annual Report to all shareholders, unless they have opted out. This position will be kept under review. Please communicate your views to the Company Secretary 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	25 August 2009
Record (books close) date for final dividend	31 August 2009
Final dividend paid	22 September 2009
Annual General Meeting	6 November 2009

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 2009.

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.

Trading Results

The profit after tax of the consolidated entity for the year was $126,145,000 (2008: $161,952,000) after income tax expense of $55,267,000 (2008: $76,749,000).

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 final dividend payable to shareholders on 22 September 2009.

A fully franked interim dividend of 8 cents per share ($44,880,000) was paid on 13 March 2009.

A fully franked final dividend of 12 cents per share ($67,320,000), for the year ended 30 June 2008, was paid on 22 September 2008.

Review of Operations

The consolidated profit before tax was $181,412,000 (2008: $238,701,000).

Directors' Report CONTINUED

Changes in the State of Affairs

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

Events Subsequent to the End of the Financial Year

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with in this report or financial statements that has significantly 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 a Commonwealth, State or Territory Law.

Auditor

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

Non-Audit Services

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

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

	2009 $	2008 $
Audit services – statutory	**260,508**	271,041
Taxation services – compliance	**454,417**	539,380
Taxation services – advice	–	8,755
Taxation services – foreign tax agent	**69,527**	13,755
Other audit and assurance services	**5,958**	58,100
Advisory services – restructuring and related costs*	**354,285**	944,559
Total	**1,144,695**	1,835,590

* For 2009, 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 21.

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 61)

Mr Cole has over 31 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 is Chairman of Ironbark Capital Limited and IMB Limited. Mr Cole is a Director of State Super Financial Services Australia Limited and Challenger Listed Investments 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 59)

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 National Australia Banking groups. Mr Coleman is a Director of Platinum Capital Limited.

Directors' Report CONTINUED

Margaret Towers CA, GAICD
Independent Non-Executive Director, Chair of the Audit Committee and member of the Remuneration Committee since 10 April 2007. (Age 51)

Ms Towers is a Chartered Accountant with over 27 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 (UCT), ASIP
Managing Director since 12 July 1993. (Age 59)

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 51)

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 2009.

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	5	5	4	4	4	4
B Coleman	5	5	4	4	4	4
M Towers	5	5	4	4	4	4
K Neilson	5	5	–	–	–	–
M Halstead	5	5	–	–	–	–

Remuneration Report (audited)

Principles used to determine the nature and amount of remuneration

The Executive Directors review and determine the remuneration of the Non-Executive Directors and may utilise the services of external advisors.

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

The remuneration of the Directors is not linked to the performance or earnings of the Company 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 (other than those disclosed below) 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	13,745	213,745
B Coleman	175,000	13,745	188,745
M Towers	175,000	13,745	188,745
Total remuneration	550,000	41,235	591,235

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.

Directors' Report CONTINUED

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 $313,756 (2008: $313,132) and superannuation of $99,989 (2008: $99,997) and M Halstead a salary of $263,756 (2008: $313,130), and superannuation of $99,989 (2008: $49,999).

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 $313,747 (2008: $313,130), superannuation of $49,997 (2008: $49,999) and share-based compensation as disclosed on the following page.

Platinum Investment Management Limited provided for additional long service leave as follows: K Neilson $12,753 (2008: $3,854), M Halstead $10,339 (2008: $3,932) and A Clifford $12,926 (2008: $3,656) and provided for an increase/(decrease) in annual leave as follows: K Neilson ($1,282) (2008: $18,642), M Halstead ($3,803) (2008: $8,266) and A Clifford ($17,213) (2008: $2,462).

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 1 JULY 2008	ACQUISITIONS	DISPOSALS	BALANCE 30 JUNE 2009
M Cole	300,000	–	–	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 Directors of the Company.

A Clifford was granted 3,844,350 options on 17 June 2009. These options were granted at a strike price of $4.50. The options vest after four years and have a further two year exercise period. The assessed fair value of options granted on 17 June 2009 was $1.14 per option. The share-based payments expense relating to this grant to A Clifford was $41,820 (2008: $nil).

The Executive Directors did not receive any other short-term or long-term incentives, other than what is disclosed above.

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

- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation is $213,745.

B Coleman, Non-Executive Director

- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation is $188,745.

M Towers, Non-Executive Director

- Agreements have no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation is $188,745.

Directors' Report CONTINUED

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	Kerr Neilson
Chairman	**Director**
Sydney, 20 August 2009	

Auditor's Independence Declaration

As lead Auditor for the audit of Platinum Asset Management Limited and its controlled entities for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

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

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

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

A J Loveridge

A J Loveridge

Partner
PricewaterhouseCoopers
20 August 2009

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 15 to 16.

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.

Corporate Governance Statement CONTINUED

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 2009.

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

Corporate Governance Statement CONTINUED

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 are 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.

Corporate Governance Statement CONTINUED

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 2008/2009 reporting year is set out on pages 17 to 19 of the Directors' Report.

3. External Auditors

The Company's policy is to appoint external auditors who clearly demonstrate competence 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 Company's Share Trading Policy. In summary, the policy prohibits trading in the 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 2009, the Managing Director and Finance Director have made the following certifications to the Board:

– The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and 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 the Company's shares takes place in an efficient, competitive and informed market;
– complying with the Company's disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*; and
– ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

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

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

Corporate Governance Statement CONTINUED

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 Communications 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 required to sign an annual declaration confirming their compliance with the BROC and the Group's policies.

Income Statement FOR THE YEAR ENDED 30 JUNE 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Income				
Management fees	**187,447**	238,497	**–**	–
Performance fees	**6,171**	28,665	**–**	–
Administration fees	**9,431**	11,165	**–**	–
Interest	**9,712**	8,890	**–**	–
Net gains/(losses) on financial assets at fair value through profit or loss	**240**	(1,206)	**–**	–
Net gains/(losses) on foreign currency contracts	**(1,125)**	25	**–**	–
Net gains/(losses) on foreign currency bank accounts	**7,442**	(2,962)	**–**	–
Dividends	**–**	–	**112,200**	67,320
Other investment	**166**	57	**–**	–
Total income	**219,484**	283,131	**112,200**	67,320

	NOTES	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Expenses					
Staff		**15,428**	16,268	**–**	–
Custody and unit registry		**9,195**	10,697	**–**	–
Business development		**3,397**	3,263	**–**	–
Share-based payments	7	**2,575**	5,176	**–**	–
Research		**1,368**	1,480	**–**	–
Rent		**1,272**	1,179	**–**	–
Technology		**837**	946	**–**	–
Other professional		**780**	853	**–**	–
Legal and compliance		**544**	578	**–**	–
Restructuring and related costs		**505**	1,187	**–**	–
Miscellaneous		**458**	570	**–**	3
Depreciation		**430**	500	**–**	–
Share registry		**362**	762	**–**	–
Mail house		**299**	359	**–**	–
Auditor's remuneration		**261**	271	**–**	–
Periodic reporting		**235**	211	**–**	–
Other occupancy		**126**	130	**–**	–
Total expenses		**38,072**	44,430	**–**	3
Profit before income tax expense/(benefit)		**181,412**	238,701	**112,200**	67,317
Income tax expense/(benefit)	2(a)	**55,267**	76,749	**–**	(1)
Profit after income tax expense/(benefit)		**126,145**	161,952	**112,200**	67,318
Basic earnings per share (cents per share)	9	**22.49**	28.87	**–**	–
Diluted earnings per share (cents per share)	9	**21.62**	27.62	**–**	–

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

Balance Sheet AS AT 30 JUNE 2009

	NOTES	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Current assets					
Cash and cash equivalents	12(a)	**14,269**	171,160	**142**	136
Financial assets at fair value through profit or loss		**59**	1,027	**–**	–
Bank certificates on deposit		**165,332**	–	**–**	–
Trade receivables		**24,295**	18,599	**–**	–
Related party account		**–**	–	**10,417**	12,432
Interest receivable		**3,835**	76	**–**	–
Prepayments		**1,027**	1,052	**–**	–
Total current assets		**208,817**	191,914	**10,559**	12,568
Non-current assets					
Deferred tax assets	2(b)	**3,078**	4,483	**–**	–
Investments	19	**–**	–	**638,766**	636,320
Fixed assets	3	**2,660**	2,742	**–**	–
Total non-current assets		**5,738**	7,225	**638,766**	636,320
Total assets		**214,555**	199,139	**649,325**	648,888
Current liabilities					
Payables	4	**7,048**	7,686	**141**	135
Current tax payable		**10,418**	12,433	**10,418**	12,433
Provisions	5	**1,802**	1,405	**–**	–
Total current liabilities		**19,268**	21,524	**10,559**	12,568
Non-current liabilities					
Deferred tax liabilities	2(c)	**1,145**	–	**–**	–
Provisions	5	**7**	–	**–**	–
Total non-current liabilities		**1,152**	–	**–**	–
Total liabilities		**20,420**	21,524	**10,559**	12,568
Net assets		**194,135**	177,615	**638,766**	636,320
Equity					
Contributed equity	8(a)	**629,091**	629,091	**629,091**	629,091
Reserves	8(b)	**(579,737)**	(582,312)	**8,261**	5,815
		49,354	46,779	**637,352**	634,906
Retained profits	10	**144,781**	130,836	**1,414**	1,414
Total equity		**194,135**	177,615	**638,766**	636,320

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

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

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Total equity at the beginning of the financial year	**177,615**	77,825	**636,320**	631,164
Profit for the year	**126,145**	161,952	**112,200**	67,318
Total recognised income and expense for the financial year	**126,145**	161,952	**112,200**	67,318
Transactions with equity holders in their capacity as equity holders:				
Share-based payments and other reserves	**2,575**	5,158	**2,446**	5,158
Dividends paid	**(112,200)**	(67,320)	**(112,200)**	(67,320)
	(109,625)	(62,162)	**(109,754)**	(62,162)
Total equity at the end of the financial year	**194,135**	177,615	**638,766**	636,320

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 2009

	NOTES	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Cash flow from operating activities					
Interest received		**5,953**	9,021	**–**	–
Dividends received		**–**	–	**112,200**	67,320
Receipts from operating activities		**197,473**	283,899	**–**	–
Payments for operating activities		**(34,270)**	(41,228)	**–**	(3)
Income taxes paid		**(54,732)**	(80,665)	**(54,732)**	(90,459)
Payments from related parties to pay income tax		**–**	–	**54,732**	90,463
Cash flow from operating activities	12(b)	**114,424**	171,027	**112,200**	67,321
Cash flow from investing activities					
Receipts from sale of investments		**21,129**	14,160	**–**	–
Payments for purchases of investments		**(13,982)**	(16,578)	**–**	–
Purchase of fixed assets		**(348)**	(539)	**–**	–
Purchase of bank certificates of deposit		**(165,332)**	–	**–**	–
Cash flow from investing activities		**(158,533)**	(2,957)	**–**	–
Cash flow from financing activities					
Dividends paid		**(112,194)**	(67,185)	**(112,194)**	(67,185)
Cash flow from financing activities		**(112,194)**	(67,185)	**(112,194)**	(67,185)
Net increase/(decrease) in cash and cash equivalents		**(156,303)**	100,885	**6**	136
Cash and cash equivalents held at the beginning of the financial year		**171,160**	73,072	**136**	–
Effects of exchange rate changes on cash and cash equivalents		**(588)**	(2,797)	**–**	–
Cash and cash equivalents held at the end of the financial year		**14,269**	171,160	**142**	136

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

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all periods presented, unless otherwise stated.

The financial report 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.

The financial report was authorised for issue by the Directors of the Company on 20 August 2009.

(a) Basis of Preparation

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

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS).

Compliance with AIFRS ensures that the consolidated financial statements, and notes thereto, comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

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

Critical Accounting Estimates

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.

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

(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 2009 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.

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's policy is to treat 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.

1. Summary of Significant Accounting Policies CONTINUED

(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.

Any current tax liabilities/receivables of the consolidated group are accounted for by Platinum Asset Management Limited.

Current tax expense and deferred tax assets and liabilities are determined on a consolidated basis and recognised by the consolidated entity.

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

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the Balance Sheet as "financial assets at fair value through profit or loss". These financial assets are initially recognised at fair value, excluding transaction costs, which are expensed as incurred.

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.

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

(f) Foreign Currency Translation

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

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

(g) Revenue Recognition

Management, Administration and Performance Fees

Management, Administration and Performance fees are included as part of operating income and are recognised as they are earned.

The majority of management fees are derived from the Platinum Trust Funds. This fee is calculated at 1.44% per annum (GST inclusive) of each Fund's Net Asset Value and is payable monthly.

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.

1. Summary of Significant Accounting Policies CONTINUED

(i) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes deposits at call and cash at bank which are used in the daily management of the Company's cash requirement. 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.

Receipts from operating activities include Management, Administration and Performance fees receipts. Payments for operating activities include payments to suppliers and employees.

(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, and 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

The Group operates share-based remuneration plans, which include the granting of options and performance rights. The Group also operates a Fund Appreciation Rights Plan (FARP) whereby it purchases shares in Platinum Asset Management Limited on behalf of employees, if the employee satisfies, principally a time-based vesting condition. The value of shares purchased will be equivalent to a notional value in the Platinum Trust Funds, notionally allocated to employees and adjusted for the accumulated performance of the Funds over the vesting period.

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

(m) Share-Based Payments CONTINUED

Share-based payments are granted to some employees of the Company's operating subsidiary, Platinum Investment Management Limited. Details relating to Share-based payments are set out in Note 7.

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 applies this Standard with the impact being that the expense related to grants made during the year is recognised in the employing entity.

The fair value of share-based payments granted is recognised in the consolidated accounts as an expense with a corresponding increase in equity. The fair value is measured at grant date and amortised over the period during which the employees become unconditionally entitled to the share.

For options and performance rights, 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 option or right, 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.

For shares to be purchased on behalf of employees, the fair value is measured based on the notional investment in the Platinum Trust Funds. The fair value is subsequently amortised on a straight-line basis over the applicable vesting period and adjusted at each balance date for accumulated investment performance.

At each balance date, the Group revises its estimates of the number of options and performance rights exercisable and shares to be purchased on behalf of employees. The share-based payments expense recognised each period takes into account the most recent estimate. The impact of any revision to the original estimate (eg. forfeitures) will be recognised in the Income Statement with the corresponding adjustment to equity.

(n) Contributed Equity

Ordinary shares are classified as equity.

1. Summary of Significant Accounting Policies CONTINUED

(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 Options and Performance Rights Plan (OPRP) (see Note 9).

(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	$2^1/_2$ years
In-house Software	4 years
Communications Equipment	4 – 20 years
Office Fitout	5 – $13^1/_3$ years
Office Furniture and Equipment	5 – $13^1/_3$ years

Gains and losses on disposals are included in the Income Statement.

(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.

Notes to the Financial Statements 30 JUNE 2009

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 2009 reporting period. The Company's and consolidated entity's assessment of the impact of these new standards and interpretations is set out below:

(i) 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.

(ii) AASB 2008-1: *Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)*

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of share-based payments are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company and the consolidated entity have not adopted the standard early.

The revised standard is not expected to affect the accounting for the Company's and consolidated entity's share-based payments.

1. Summary of Significant Accounting Policies CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

(iii) Revised 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.

(iv) 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 periods beginning on or after 1 January 2009. It requires the presentation of a Statement of Comprehensive Income and makes changes to the Statement of 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 re-classifies 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.

Notes to the Financial Statements 30 JUNE 2009

1. Summary of Significant Accounting Policies CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

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

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

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

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

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

(ii) the reliability of fair value measurements.

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

2. Income Tax

(a) The income tax expense/(benefit) attributable to profit comprises:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Current income tax provision	**52,705**	73,637	**–**	(1)
Deferred tax assets	**1,405**	(143)	**–**	–
Deferred tax liabilities	**1,145**	–	**–**	–
Under provision of prior period tax	**12**	3,255	**–**	–
Income tax expense/(benefit)	**55,267**	76,749	**–**	(1)

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:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Profit before income tax expense	**181,412**	238,701	**112,200**	67,317
Prima facie income tax on profit at 30%	**54,424**	71,610	**33,660**	20,195
Tax effect on amounts which:				
Reduce tax payable:				
– Allowable credits	**(3)**	(1)	**–**	–
– Non-assessable income	**–**	(1)	**(33,660)**	(20,196)
Tax-effect on amounts which are non-deductible				
Increase tax payable:				
– Share-based payments	**772**	1,553	**–**	–
– Depreciation	**59**	124	**–**	–
– Other non-deductible expenses	**3**	3	**–**	–
Under provision of prior period tax	**12**	3,255	**–**	–
Adjustment for prior period deferred tax asset	**–**	206	**–**	–
Income tax expense/(benefit)	**55,267**	76,749	**–**	(1)

Notes to the Financial Statements 30 JUNE 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000

2. Income Tax CONTINUED

(b) Deferred tax assets

The balance comprises temporary differences attributable to:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Capital expenditure not immediately deductible	**2,027**	2,834	**–**	–
Employee entitlements:				
– Long service leave	**305**	168	**–**	–
– Annual leave	**236**	253	**–**	–
Unrealised foreign exchange losses	**176**	839	**–**	–
Legal fees	**105**	105	**–**	–
Tax fees	**87**	106	**–**	–
Periodic reporting	**58**	66	**–**	–
Audit fees	**44**	75	**–**	–
Printing and mail house	**27**	29	**–**	–
Fringe benefits tax	**4**	4	**–**	–
Unrealised capital losses	**4**	4	**–**	–
Shareholder relations	**3**	–	**–**	–
Payroll tax	**2**	–	**–**	–
Deferred tax assets	**3,078**	4,483	**–**	–

(c) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Interest receivable on bank certificates of deposit	**1,145**	–	**–**	–
Deferred tax liabilities	**1,145**	–	**–**	–

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
3. Fixed Assets				
Computer equipment (at cost)	**632**	601	–	–
Less: Accumulated depreciation	**(547)**	(487)	–	–
	85	114	–	–
Purchased and capitalised software (at cost)	**2,270**	1,978	–	–
Less: Accumulated depreciation	**(1,482)**	(1,250)	–	–
	788	728	–	–
Communication equipment (at cost)	**132**	132	–	–
Less: Accumulated depreciation	**(106)**	(93)	–	–
	26	39	–	–
Office premises fit out (at cost)	**1,696**	1,696	–	–
Less: Accumulated depreciation	**(210)**	(146)	–	–
	1,486	1,550	–	–
Office furniture and equipment (at cost)	**473**	469	–	–
Less: Accumulated depreciation	**(198)**	(158)	–	–
	275	311	–	–
	2,660	2,742	–	–

ASSET MOVEMENTS DURING THE YEAR	CONSOLIDATED COMPUTER EQUIPMENT 2009 $'000	CONSOLIDATED COMPUTER EQUIPMENT 2008 $'000	CONSOLIDATED PURCHASED AND CAPITALISED SOFTWARE 2009 $'000	CONSOLIDATED PURCHASED AND CAPITALISED SOFTWARE 2008 $'000
Opening	**114**	203	**728**	507
Additions	**43**	38	**298**	465
Disposals	–	(4)	–	(1)
Depreciation expense	**(72)**	(123)	**(238)**	(243)
Closing balance	**85**	114	**788**	728

Notes to the Financial Statements 30 JUNE 2009

3. Fixed Assets CONTINUED

	CONSOLIDATED COMMUNICATION EQUIPMENT		CONSOLIDATED OFFICE PREMISES FIT OUT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening	**39**	50	**1,550**	1,598
Additions	**2**	5	**–**	29
Disposals	**–**	–	**–**	(3)
Depreciation expense	**(15)**	(16)	**(64)**	(74)
Closing balance	**26**	39	**1,486**	1,550

	CONSOLIDATED OFFICE FURNITURE AND EQUIPMENT	
	2009 $'000	2008 $'000
Opening	**311**	353
Additions	**5**	2
Disposals	**–**	–
Depreciation expense	**(41)**	(44)
Closing balance	**275**	311

The closing balance of purchased and capitalised software disclosed above includes amounts recognised in relation to software in the course of construction and development of $132,000 at 30 June 2009 (2008: $153,000).

4. Payables

	CONSOLIDATED		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade creditors	**5,595**	6,052	**–**	–
Goods and Services Tax (GST)	**1,312**	1,499	**–**	–
Unclaimed dividends payable to shareholders	**141**	135	**141**	135
	7,048	7,686	**141**	135

Trade creditors are unsecured and payable between seven and 30 days after the consolidated entity becomes liable. Information relating to the consolidated entity's exposure of payables to liquidity risk is shown in Note 18.

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
5. Provisions				
Current				
Long service leave	**1,015**	561	**–**	–
Annual leave	**787**	844	**–**	–
	1,802	1,405	**–**	–
Non-Current				
Payroll tax	**7**	–	**–**	–
	7	–	**–**	–
6. Franking Account				
Opening balance based on tax paid and franking credits attached to dividends paid – converted at 30%	**93,627**	35,873	**93,627**	35,873
Dividends paid – franked at 30%	**(48,086)**	(28,851)	**(48,086)**	(28,851)
Tax paid or payable	**52,735**	86,605	**52,735**	86,605
Estimated franking credits available	**98,276**	93,627	**98,276**	93,627

7. Share-Based Payments

(a) Options and Performance Rights Plan (OPRP)

On 22 May 2007, the Group established an OPRP to assist with the retention and motivation of employees. Options were granted under this plan on 17 June 2009.

Options

On 22 May 2007, some employees were initially granted 27,010,467 options under the OPRP, to take up shares in Platinum Asset Management Limited at a strike price of $5.00. The options vest after four years and have a further two year exercise period.

On 17 June 2009, some employees were granted 8,783,205 options under the OPRP to take up shares in Platinum Asset Management Limited at a strike price of $4.50. The options vest after four years and have a further two year exercise period.

Notes to the Financial Statements 30 JUNE 2009

7. Share-Based Payments CONTINUED

(a) Options and Performance Rights Plan (OPRP) CONTINUED

Performance Rights

On 22 May 2007, some 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 at a strike price of $0.00. These performance rights vest after three years and have a further two year exercise period. Employees were initially granted 372,703 performance rights. No further performance rights have been granted since 2007.

Options and Performance Rights on Issue

Options and performance rights on issue are as follows:

	30 JUNE 2009 QUANTITY	30 JUNE 2008 QUANTITY
Options Granted on 22 May 2007		
Opening balance	**23,139,567**	26,786,067
Forfeitures – 13 August 2007	–	(561,000)
Forfeitures – 25 January 2008	–	(3,085,500)
Forfeitures – 24 October 2008	**(981,750)**	–
Forfeitures – 8 May 2009	**(5,610,000)**	–
Closing balance	**16,547,817**	23,139,567
Options Granted on 17 June 2009		
Opening balance	–	–
Grant – 17 June 2009	**8,783,205**	–
Closing balance	**8,783,205**	–
Performance Rights Granted on 22 May 2007		
Opening balance	**377,803**	372,703
Grant – 1 July 2007	–	12,000
Forfeitures – 10 October 2007	–	(4,650)
Forfeitures – 30 November 2007	–	(2,250)
Forfeitures – 11 July 2008	**(5,400)**	–
Forfeitures – 1 August 2008	**(5,400)**	–
Forfeitures – 3 October 2008	**(10,500)**	–
Closing balance	**356,503**	377,803
Closing balance of options and performance rights on issue	**25,687,525**	23,517,370

7. Share-Based Payments CONTINUED

(a) Options and Performance Rights Plan (OPRP) CONTINUED

Model Inputs for Options and Performance Rights Granted

	OPTIONS 22 MAY 2007	OPTIONS 17 JUNE 2009	PERFORMANCE RIGHTS
Model inputs for options and performance rights granted included:			
(a) Exercise price	$5.00	$4.50	$0.00
(b) Grant date	22 May 2007	17 June 2009	22 May 2007
(c) Expiry date	22 May 2013	17 May 2015	22 May 2012
(d) Days to expiry (mid-point) at grant date	1,825 days	1,825 days	1,095 days
(e) Share price at grant date	$5.00	$4.10	$5.00
(f) Assumed volatility of the Company's shares	22.50%	42.00%	22.50%
(g) Assumed dividend yield	5.35%	4.30%	5.35%
(h) Risk-free interest rate	6.11%	5.01%	6.17%

In relation to the options and performance rights granted in May 2007, there was no historical basis to work out the assumed price volatility of the Company's shares. Therefore, the volatility was based on an analysis of comparable listed funds management companies. For options granted on 17 June 2009, the volatility was based on the Company's share price movement since December 2008.

Fair Value of Options and Performance Rights

The assessed fair value of options and performance rights granted on 22 May 2007 was $0.82 per option and $4.26 per performance right. The assessed fair value of options granted on 17 June 2009 was $1.14 per option.

(b) Fund Appreciation Rights Plan (FARP)

On 1 April 2009, the Group established the FARP to assist with the retention and motivation of the Group's investment analysts.

Under the FARP, shares in Platinum Asset Management Limited will be purchased by the Group on behalf of employees, if they satisfy a time-based vesting period requirement of three years continuous employment with the Group.

The total number of shares to be purchased by the Group will be equivalent to the notional investment in the Platinum Trust Funds, notionally allocated to employees, adjusted for the accumulated performance of the Funds over the vesting period. This interest is "notional" only, meaning employees have no entitlement to units in the Platinum Trust Funds.

Notes to the Financial Statements 30 JUNE 2009

7. Share-Based Payments CONTINUED

(b) Fund Appreciation Rights Plan (FARP) CONTINUED

Fair Value of the Fund Appreciation Rights (FARs) Granted

The assessed fair value of FARs at 30 June 2009 is equivalent to the notional market value of the investment in the Platinum Trust Funds at 1 April 2009 adjusted for the appreciation in notional value of units between 1 April 2009 and 30 June 2009. The fair value at 1 April 2009, of FARs to be amortised over the three year vesting period was $550,000 and the appreciation in the notional value of units between 1 April 2009 and 30 June 2009 was $83,025.

Expenses Arising from Share-Based Payment Transactions

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

	CONSOLIDATED		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Options granted on 22 May 2007	**1,888**	4,649	**–**	–
Options granted on 17 June 2009	**96**	–	**–**	–
Performance rights granted on 22 May 2007	**462**	527	**–**	–
Fund appreciation rights granted on 1 April 2009	**129**	–	**–**	–
Total share-based payments expense	**2,575**	5,176	**–**	–
Associated payroll tax expense/(write-back) on options and performance rights*	**6**	(126)	**–**	–
Associated payroll tax expense on fund appreciation rights*	**7**	–	**–**	–
Total	**2,588**	5,050	**–**	–

* Amounts are included in staff expense in the Income Statement.

At 30 June 2009, the fair value remaining to be amortised over the remainder of the vesting period is $6,396,930 (options granted on 22 May 2007), $441,449 (performance rights granted on 22 May 2007), $9,882,175 (options granted on 17 June 2009) and $504,334 for the FARs.

In order to retain and motivate employees, additional options, performance rights or FARs may be issued under the OPRP or FARP, over time, in compliance with the *Corporations Act 2001* and relevant ASIC relief.

	CONSOLIDATED AND PARENT ENTITY 2009 QUANTITY '000	2009 $'000	CONSOLIDATED AND PARENT ENTITY 2008 QUANTITY '000	2008 $'000

8. Contributed Equity and Reserves

(a) Movement in share capital

	2009 QUANTITY '000	2009 $'000	2008 QUANTITY '000	2008 $'000
Ordinary Shares	**561,000**	629,091	**561,000**	629,091
Total Contributed equity	**561,000**	629,091	**561,000**	629,091

Ordinary Shares

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

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
(b) Movement in reserves				
Opening balance – Brought forward capital reserve	**(582,312)**	(588,127)	**5,815**	–
Opening balance – Brought forward 2007 Share-based payments reserve	**–**	657	**–**	657
Unvested shares – Options (granted on 22 May 2007)	**1,888**	4,649	**1,888**	4,649
Unvested shares – Options (granted on 17 June 2009)	**96**	–	**96**	–
Unvested shares – Performance rights	**462**	527	**462**	527
Unvested shares – Fund appreciation rights	**129**	–	**–**	–
Other reserves	**–**	(18)	**–**	(18)
Closing Balance	**(579,737)**	(582,312)	**8,261**	5,815

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 Limited 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 in 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.

Notes to the Financial Statements 30 JUNE 2009

8. 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 opening brought forward capital reserve for 2008 represents the difference between consideration paid for the purchase of the minority interests and the share of net assets acquired in the minority interests. This was deducted from equity.

	CONSOLIDATED 2009	CONSOLIDATED 2008
9. Earnings per Share		
Basic earnings per share – cents per share	**22.49**	28.87
Diluted earnings per share – cents per share	**21.62**	27.62
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	**583,333,867**	586,327,522
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**126,145**	161,952

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
10. Retained Profits				
Retained earnings at the beginning of the financial year	**130,836**	36,204	**1,414**	1,416
Net profit	**126,145**	161,952	**112,200**	67,318
Dividends paid	**(112,200)**	(67,320)	**(112,200)**	(67,320)
Retained earnings at the end of the financial year	**144,781**	130,836	**1,414**	1,414

	PARENT ENTITY 2009 CENTS PER SHARE	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 CENTS PER SHARE	PARENT ENTITY 2008 $'000
11. Dividends (Fully Franked)				
Paid – Interim 2008	–	–	12.00	67,320
Paid – Final 2008	**12.00**	**67,320**	–	–
Paid – Interim 2009	**8.00**	**44,880**	–	–
		112,200		67,320

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 2009 but not recognised as a liability at year-end is $67,320,000.

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
12. Notes to the Cash Flow Statement				
(a) Reconciliation of cash				
Cash at bank	**143**	4	**1**	1
Cash on deposit	**14,126**	171,156	**141**	135
	14,269	171,160	**142**	136

Cash on deposit at 30 June 2009 is at call. Information in relation to the consolidated entity's exposure to interest rate risk is provided in Note 18.

Notes to the Financial Statements 30 JUNE 2009

12. Notes to the Cash Flow Statement CONTINUED

(b) Reconciliation of net cash from operating activities to profit after income tax

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
Profit after income tax	**126,145**	161,952	**112,200**	67,318
Depreciation expense	**430**	500	**–**	–
Fixed assets scrapped	**–**	8	**–**	–
Share-based payments	**2,575**	5,176	**–**	–
Fair value loss on financial assets at fair value through profit or loss	**–**	57	**–**	–
Write-off of sundry receivables	**–**	(19)	**–**	–
(Gain)/loss on investments	**(6,179)**	1,334	**–**	–
Decrease/(Increase) in cash due to exchange rate movements	**588**	2,797	**–**	–
Decrease/(Increase) in trade receivables	**(5,696)**	5,473	**–**	–
Decrease/(Increase) in interest receivable	**(3,759)**	131	**–**	–
Decrease/(Increase) in prepayments	**25**	(210)	**–**	–
Decrease/(Increase) in deferred tax assets	**1,405**	(143)	**–**	–
Decrease/(Increase) in related party account	**–**	–	**2,015**	13,720
(Decrease)/Increase in trade creditors and GST	**(644)**	(2,266)	**–**	–
(Decrease)/Increase in annual leave, long service leave and payroll tax provisions	**404**	9	**–**	–
(Decrease)/Increase in income tax payable	**(2,015)**	(3,772)	**(2,015)**	(13,717)
(Decrease)/Increase in deferred tax liabilities	**1,145**	–	**–**	–
	114,424	171,027	**112,200**	67,321

13. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2009 and 30 June 2008.

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 2009 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 a portion of its management and performance share fees from US-based Investment Mandates, as follows:

2009	SEGMENT REVENUE $'000	SEGMENT RESULTS $'000	SEGMENT ASSETS $'000	SEGMENT LIABILITIES $'000
Australia	**207,178**	**169,106**	**210,685**	**20,420**
North America	**12,311**	**12,311**	**3,870**	**–**
Unallocated	**(5)**	**(5)**	**–**	**–**
	219,484	**181,412**	**214,555**	**20,420**

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

16. Lease Commitments

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

	CONSOLIDATED		PARENT ENTITY	
OPERATING LEASES	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Payable not later than one year	**1,304**	1,254	**–**	–
Payable later than one, not later than five years	**5,875**	5,651	**–**	–
Payable later than five years	**957**	2,550	**–**	–
	8,136	9,455	**–**	–

Notes to the Financial Statements 30 JUNE 2009

17. Auditor's Remuneration

During the year the following fees were paid or payable for services provided by the Auditor to the consolidated entity. The fees were paid by Platinum Investment Management Limited on behalf of the consolidated entity.

	2009 $'000	2008 $'000
Audit services – statutory	**261**	271
Taxation services – compliance	**454**	539
Taxation services – advice	**–**	9
Taxation services – foreign tax agent	**70**	14
Other audit and assurance services	**6**	58
	791	891
Advisory services – restructuring and related costs	**354**	945
	1,145	1,836

18. Financial 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 Company and consolidated entity.

The Investment Manager's risk management procedures focus on managing the potential adverse effects on financial performance, caused by volatility of financial markets.

18. Financial Risk Management CONTINUED

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:

(a) 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;

(b) 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;

(c) 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;

(d) a loss of key personnel; and

(e) 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.

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.

Notes to the Financial Statements 30 JUNE 2009

18. Financial Risk Management CONTINUED

(a) Market Risk CONTINUED

Performance fees may be earned by 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 higher than the applicable benchmark, a performance fee would be receivable for the financial year. As at 30 June 2009, Platinum Capital Limited exceeded the relevant benchmark and performance fee of $5,146,911 was receivable (2008: $nil).

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 strong growth.

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

The section below 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 2009.

(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$2,852,265 in cash at 30 June 2009 (2008: US$36,596,652). 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$727,036 higher/A$594,930 lower (2008: A$6,208,714 higher/A$5,079,621 lower).

At 30 June 2009, the parent entity does not have direct exposure to foreign exchange risk.

18. Financial Risk Management CONTINUED

(a) Market Risk CONTINUED

(ii) Interest Rate Risk

At 30 June 2009, bank certificates of deposit are the only significant asset with potential exposure to interest rate risk, held by the consolidated entity. An interest rate movement of +/-1% occurring on 30 June 2009 will have no impact on profit, as the interest rate on bank certificates of deposit are determined on purchase date.

At 30 June 2009, the parent entity does not have a significant direct exposure to interest rate risk.

(iii) Price Risk

At 30 June 2009, financial assets at fair value through profit or loss represent an immaterial amount of the consolidated entity's total assets and net profit. Bank certificates of deposit are valued based on the consideration paid (plus interest receivable). Accordingly, the consolidated entity does not have a significant direct exposure to price risk.

At 30 June 2009, the parent entity does not have a significant direct exposure to price risk.

(b) Credit Risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically "non-equity" financial instruments). Credit risk arises from the financial assets of the consolidated entity which includes cash, receivables and bank certificates of deposit. All bank certificates of deposit are held with licensed Australian banks.

The maximum exposure to direct credit risk at balance date is the carrying amount of financial assets recognised in the Balance Sheet. The consolidated entity may hold some collateral as security (eg. margin accounts) and the credit quality of all financial assets is consistently monitored by the consolidated entity. No financial assets are past due or impaired.

Any default in 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 risk exposure.

At 30 June 2009, the parent entity does not have a significant direct exposure to credit risk.

Notes to the Financial Statements 30 JUNE 2009

18. Financial Risk Management CONTINUED

(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 receiving 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 2009, the consolidated entity has an obligation to settle trade creditors of $5,594,964 (2008: $6,051,928) between seven and 30 days after becoming legally liable, Goods and Services Tax liability of $1,311,779 (2008: $1,499,345) within 21 days and estimated income tax payable of $10,417,848 (2008: $12,433,330) within approximately five months and unclaimed dividends payable to shareholders of $141,060 (2008: $135,132), long service leave of $1,015,547 (2008: $561,000) and annual leave of $786,752 (2008: $843,608) all payable at call. In addition, a payroll tax amount of $7,400 (2008: $nil) has been provided for and is payable on vesting date (of shares under the FARP) in March 2012.

At 30 June 2009, the consolidated entity has sufficient cash reserves of $14,128,132 (2008: $171,025,318) and a further $28,129,331 ($2008: $18,673,953) of receivables to cover these liabilities. The consolidated entity may also convert its bank certificates of deposit to cash to settle any liabilities. At 30 June 2009, bank certificates of deposit totalled $165,332,030 (2008: $nil).

All bank certificates of deposit have maturities of less than 12 months. The portfolio takes into account all projected cash outflows.

Accordingly, the consolidated entity does not have a significant direct exposure to liquidity risk.

At 30 June 2009, the parent entity had an estimated obligation to pay Australian taxation authorities $10,417,848 (2008: $12,433,330) 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 any taxation liabilities. Accordingly, the parent entity does not have a significant direct exposure to liquidity risk.

18. Financial Risk Management CONTINUED

(d) Fair Value Estimation

Please refer to Note 1(d).

(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") (ie. its own funds in liquid form).

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

Notes to the Financial Statements 30 JUNE 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
19. Investments				
The Company held the following investments:				
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	–	–	**8,279**	5,833
Shares in Platinum Asset Management Pte Limited	–	–	–	–
	–	–	**638,766**	636,320

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 and Note 23.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 21.

(c) Transactions with related parties

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 and Platinum Capital Limited's 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 2009 was $170,596,253 (2008: $202,899,907).

(d) Tax consolidation and dividend transactions

Any tax payments and dividends are sourced from the operating subsidiary, Platinum Investment Management Limited and paid out by the Company. Platinum Asset Management Limited is the head entity of the consolidated tax group and is the entity that ultimately pays out dividends to shareholders.

Notes to the Financial Statements 30 JUNE 2009

23. Key Management Personnel Disclosures

(a) Details of remuneration

The consolidated entity paid Executive and Non-Executive Directors total salaries of $1,441,259 (2008: $1,489,392) and superannuation of $291,210 (2008: $239,382).
Also provided for the Executive Directors of the Company was additional long service leave of $36,018 (2008: $11,442) and a decrease in annual leave of $22,298 (2008: $24,446).
The above includes remuneration paid and provided to A Clifford, who is a Director of the operating subsidiary, Platinum Investment Management Limited. A Clifford also received share-based compensation which is disclosed below.

(b) 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 M Cole 300,000 (2008: 300,000), B Coleman 200,000 (2008: 200,000), M Towers 20,000 (2008: 20,000), K Neilson 322,074,841 (2008: 322,074,841) and M Halstead 22,834,931 (2008: 22,834,931). No shares were acquired or disposed of by any of the Directors during the year.

(c) Share-based compensation

No options or performance rights have been granted to any Non-Executive or Executive Directors of the Company. A Clifford, a Director of Platinum Investment Management Limited, was granted 3,844,350 options on 17 June 2009. These options were granted at a strike price of $4.50. The options vest after four years and have a further two year exercise period. The assessed fair value of options granted on 17 June 2009 was $1.14 per option. The 2009 share-based payments expense relating to this grant to A Clifford was $41,820 (2008: $nil).

Directors' Declaration

In the Directors' opinion,

(a) the financial statements and notes set out on pages 32 to 68 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 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Platinum 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 17 to 20 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
Sydney, 20 August 2009

Kerr Neilson
Director

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757
Darling Park Tower 2
201 Sussex Street
GPO Box 2650
Sydney NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Report on the financial report

We have audited the accompanying financial report of Platinum Asset Management Limited (the Company), which comprises the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both Platinum Asset Management Limited and the Platinum Asset Management group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

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

Independence

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

Independent Auditor's Report CONTINUED

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 and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

(b) the consolidated financial statements and notes 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 17 to 20 of the Directors' Report for the year ended 30 June 2009. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

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

PricewaterhouseCoopers

A J Loveridge
Partner

Sydney, 20 August 2009