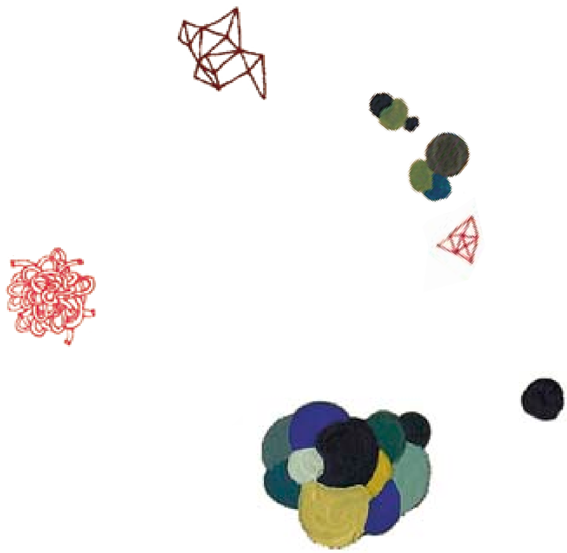
ANNUAL REPORT 2011

PLATINUM ASSET MANAGEMENT LIMITED ABN 13 050 064 287



Directors

Michael Cole
Margaret Towers
Philip Howard
Bruce Coleman
Kerr Neilson

Company Secretary

Philip Howard

Shareholder Liaison

Liz Norman

Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

Share Registrar

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

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

Auditor and Taxation Advisor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

Securities Exchange Listing

Ordinary shares listed on the Australian Securities Exchange
ASX Code: **PTM**

Website

http://www.platinum.com.au/paml_shares.htm

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

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CHAIRMAN'S REPORT

PERFORMANCE

Against the back-drop of a challenging global economy and volatile investment markets, the Company's profit performance for the financial year was a pleasing result.

Net profit after tax profit was $150.1 million (2010: $136.9 million), an increase of 9.6%.

The lift in profit can be primarily attributed to an increase in management fees of 9%. The increase in profits was largely driven by the average daily Funds Under Management ("FUM") of the Platinum Trust Funds, which were up 10%.

Expenses incurred by Platinum continued to be closely monitored and increased by less than 2%.

Diluted earnings per share increased 12.8% to 26.32 cents compared to 23.33 cents in 2010.

FUNDS UNDER MANAGEMENT ("FUM")

The opening FUM for the year was $18.4 billion and rose to a high of $18.9 billion in January 2011 before falling to $17.8 billion at 30 June 2011. The FUM growth remained volatile throughout the year.

The major contributor to the decrease in the closing FUM over the period was a decline in investment performance of approximately $1.1 billion notwithstanding positive net inflows of $0.7 billion less income distributions to investors of $0.2 billion. The high Australian dollar, which appreciated by 27% over the course of the year, adversely impacted the FUM levels and investment returns.

Whilst the investment performance was disappointing over the past year, clients' long-term investment returns and performance remain strong.

DIVIDEND

A fully franked dividend of 15 cents per share will be paid on 22 September 2011. The dividend payout is broadly in line with the Dividend Policy (of paying out 80-90% of net profit after tax) and consistent with our working capital needs.

A fully franked dividend of 10 cents per share was paid on 15 March 2011.

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

Whilst the Company has a Dividend Reinvestment Plan in place, it has not been activated or likely to be activated in the near term.

THE BOARD AND ITS COMMITTEES

Both the Remuneration and Audit Committees had a productive year dealing with a number of material issues that impact the Company's performance.

Mr Malcolm Halstead retired as Finance Director and Company Secretary during the year and was replaced by Mr Philip Howard. Malcolm had held these positions since the Company's listing in 2007 and was a key member of the initial management team that established Platinum.

On behalf of the Board and our shareholders, we would like to thank Malcolm for his outstanding service. His contribution to the Company's development is immeasurable and we are fortunate that he has chosen to continue to contribute to the Company as a consultant.

ENVIRONMENT

Your Company remains carbon neutral, having purchased carbon credits to offset its carbon emissions.

CONCLUSION

The current extreme volatility in global investment markets and the competitive landscape makes it difficult to forecast what will happen to investment fees and profits in the next year. The interests of our shareholders continue to be best served by us maintaining a focus on delivering the best performance outcomes for our investors.

MICHAEL COLE
CHAIRMAN

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

INVESTMENT PERFORMANCE

This last financial year proved more testing than we would like to remember. Some of our Funds performed well but the bulk, as global mandates and including the Platinum International Fund, lost money in terms of the rampaging Australian dollar. (Our US dollar global mandates fared better in terms of their home currency).

This poor performance can be attributed to our adopting a very cautious investment stance. This was guided by the inherent belief that there can be no quick fixes to the world's economic problems and that market gyrations will be accompanied by a gradual deterioration of the valuation attributed to risk assets.

We therefore ran the main portfolios with large exposures to defensive companies and with a high level of short sales and, as importantly, hedged very little back into the Australian dollar. In the face of quantitative easing, this was precisely the wrong way around as investors clambered over defensives to load-up on growth-sensitives and their derivative currencies like the Australian dollar. As the quintessential play on Asia, and particularly Chinese economic growth, the Australian dollar appreciated by some 27% against the US dollar over the year and by 20% against the currencies of the basket of principal global share markets. (We could, in all likelihood, make this currency error again as it is our belief that most of our clients choose to invest in global funds to partially gain access to foreign currencies. Consequently, we tend to hedge back into the home currencies of mandates only when those currencies are below their longer term inherent value. This we did when the Australian dollar was trading between 65 to 85 cents versus the US dollar back in 2008-09).

THE BUSINESS

Last year we reported on the development of platforms, the review of the superannuation system and the proposed reform of regulations relating to financial advisor commissions (see the April 2011 FOFA summary of these changes over).

FUTURE OF FINANCIAL ADVICE (FOFA) 2011 SUMMARY

FOFA MEASURE	DESCRIPTION
Ban on conflicted remuneration	Ban on conflicted remuneration structures including commissions and volume-based payments
Compulsory renewal (opt-in)	Requirement for advisers to renew client agreements to ongoing advice fees every two years
Best interests duty	Requirement for advisers to act in the best interests of their clients
Ban on soft dollar benefits	Ban on soft dollar benefits over $300 per benefit
Basic banking products carve-out	Relief from best interests duty and ban on conflicted remuneration where employees of Australian Deposit-taking Institutions (ADIs) are selling their employer's basic banking products

Source: *Australian Government, Future of Financial Advice, Information Pack, 28 April 2011*

This has developed further in the last 12 months with a growing tendency for advisory groups to initiate their own platforms. With the availability of ready-made software, there are an increasing number of advisors who are tending to bring their record-keeping systems in-house. Apart from the cost savings, the changes in the rules regarding commissions (as outlined above) have significantly influenced this trend.

Fortunately for Platinum Asset Management, we have assiduously avoided the promotion of our products via any form of financial inducement being paid to advisors or advisory groups. Instead, we have relied on developing a professional and open relationship with financial planners where we try to explain the features of our products and our views about the investment opportunities in a full and frank manner. We also offer the services of our investment team to brief advisors and their clients at seminars. This is well-received as the speaker can deliver the message with authority and in addition, answer the audience questions and address sublimated concerns.[1]

1 It is perhaps worth noting that at times our message may not sit comfortably with parts of the audience on account of our contrarian bias but also perhaps, the audience's own confirmatory bias. There can be a temptation to pander to what the audience would like to hear rather than what we, rightly or wrongly, believe to be the misconception of the moment. This is another way of saying that the psychological behavioural biases that were the cornerstone of the classic work "*Judgment Under Uncertainty: Heuristics and Biases*" by Tversky and Kahneman, 1974, are as deeply rooted in our behaviour as ever.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
CONTINUED

In addition, we can, and do, supply advisors with a data feed that allows them to directly update their client portfolios for transactions, and with daily unit prices. Unfortunately, there are still limitations to our ability to transact fully on-line on account of issues relating to identification and security.

THE TEAM

Though it may not show in the performance of all of the Funds, the team is developing well. For some time now we have replaced the individual analyst's so-called 'shadow' portfolio with real money portfolios where experienced analysts are able to reveal their stock-picking ability by maintaining a portfolio of eight names. The idea here is for the individual to select a portfolio from within their area of competence uninhibited by the views or timing of other team members. Prior to introducing a new stock (and discarding an existing position), it is obligatory, however, for the analyst to first call a stock meeting at which the idea can be subjected to thorough discussion and peer review. It is not required for the group to necessarily endorse the idea but so long at it has been formally written-up and reviewed, the analyst is free to act at their volition. The performance of this small portfolio, together with the stocks attributed to that analyst within the main portfolios, will significantly influence the outcome of their bonus.

Should an analyst display a systematic ability to perform strongly, they will advance to managing larger pools of money. It is by this means that we gradually bring talent through the organisation. It is not always the case that a good analyst makes a good fund manager and for this reason we are reluctant to necessarily reward those with timing skills above those who can spot or originate clever investment ideas. Analysts with proven ability to do both are now managing a meaningful component of the International Fund and the Asia Fund.

As the investment team has grown, the depth of coverage has increased and to enhance the exchange of knowledge and understanding of related industries we have clustered analysts in related industries (pods) while still having individuals who keep watch over the principal geographic regions. Working closely with the quant team, who have developed valuable screening tools, these pods are in the position to react with more certainty to market changes.

COSTS

Costs have moved up as we anticipated, but only by a small margin. Performance-related bonuses and advancing seniority being the major contributors. As we have stated previously, the performance bonus is constructed to be self-funding.

PROFITS

Success in signing up profit sharing investment accounts has continued to build our performance fee potential. As you can see, this proportion of our funds under management has risen to $1.8 billion. Our traditional retail base has largely remained loyal, despite the drop-off in some of the Funds' performance.

FUND UNDER MANAGEMENT ($MN, TO 30 JUNE 2011)

FUND	OPENING BALANCE (30 JUNE 2010)	FLOWS	DISTRIBUTION	INVESTMENT PERFORMANCE	CLOSING BALANCE (30 JUNE 2011)
Platinum Trust Funds	13,816	289	(195)	(868)	13,042
MLC Platinum Global Fund	1,511	(259)	–	(13)	1,239
Management Fee Mandates	1,518	292	–	(84)	1,726
"Relative" Performance Fee Mandates	908	431	–	(62)	1,277
"Absolute" Performance Fee Mandates	610	(36)	–	(43)	531
TOTAL	**18,363**	**717**	**(195)**	**(1,070)**	**17,815**

Source: *Platinum*

With performance fees there is a trade-off: the modest flat fee is complemented by a performance component that will share in the degree to which we are able to outperform the benchmark (MSCI). For these fees to give us a yield equivalent to the standard flat fee, Platinum needs to outperform by approximately 5%. Our historic outperformance over the last 16 years has averaged approximately 9% per annum compound with great variances in between. Do note that this change in the blend of our fee base will introduce lumpiness in our profits. In a good year the upside can be very exciting and vice versa.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
CONTINUED

OUTLOOK
As described in our quarterly reports to our investors, it is evident that there is a plethora of issues facing the world economy. With this in mind, creating real value will be unusually challenging. Assisting us though is a maturing team of investment experts and a growing interest among professional investors in our products. As Platinum is an active manager, we are forced to have strong views about the absolute value of companies (investments). This adds to our professional burden, as we need from time to time to diverge from the pack. This can add to the risks of the business, but to the extent that our judgement prevails, the rewards can be spectacular!

KERR NEILSON
MANAGING DIRECTOR

2011

FINANCIAL STATEMENTS

PLATINUM ASSET MANAGEMENT

SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDERS

The following parties notified the Company that they have a substantial relevant interest in ordinary shares of Platinum Asset Management Limited as at 16 August 2011:

	NUMBER OF SHARES	%
J Neilson, K Neilson	323,074,841	57.55
Hyperion Asset Management	34,585,347	6.16
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.85

DISTRIBUTION OF SECURITIES

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	4,549
1,001 – 5,000	12,423
5,001 – 10,000	2,658
10,001 – 100,000	1,389
100,001 and over	61
Total number of holders	21,080
(ii) Number of holders of less than a marketable parcel	229
(iii) Percentage held by the 20 largest holders	83.24%

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of listed equity securities as at 16 August 2011 are listed below:

	NUMBER OF SHARES	%
Platinum Investment Management Limited	216,684,999	38.60
J Neilson	136,250,000	24.27
JP Morgan Nominees Australia Limited	19,717,645	3.51
Citicorp Nominees Pty Limited	17,287,900	3.08
National Nominees Limited	14,321,975	2.55
Charmfair Pty Limited	10,000,000	1.78
Jilliby Pty Limited	10,000,000	1.78
HSBC Custody Nominees (Australia) Limited	9,243,526	1.65
Cogent Nominees Pty Limited	7,734,822	1.38
Charmfair Pty Limited	6,938,475	1.24
J Clifford	5,000,000	0.89
Xetrov Pty Limited	4,000,000	0.71
Citicorp Nominees Pty Limited	2,574,273	0.46
JP Morgan Nominees Australia Limited	2,092,471	0.37
Citicorp Nominees Pty Limited	1,815,080	0.32
Warbont Nominees Pty Limited	899,291	0.16
AMP Life Limited	889,323	0.16
Queensland Investment Corporation	885,082	0.16
S Gilchrist	479,651	0.09
Smallco Investment Manager Limited	472,501	0.08

SHAREHOLDER INFORMATION
CONTINUED

VOTING RIGHTS

Ordinary Shares

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

OTHER SECURITIES ON ISSUE

The Company has other securities on issue, in the form of options. As at 16 August 2011, the Company issued 25,331,022 options to 23 holders, with each holder being granted over 100,000 options. Further details on the grant of these options is contained in Note 6 of the Notes to the Financial Statements.

No voting rights attach to the options, however any ordinary shares that are allotted to the option holders upon exercise will have the same voting rights as all other ordinary shares.

PLATINUM'S COMMITMENT TO CARBON NEUTRALITY

Platinum Asset Management remains carbon neutral, having purchased carbon credits to offset its carbon emissions.

DISTRIBUTION OF ANNUAL REPORT TO SHAREHOLDERS

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

QUESTIONS FOR THE AGM

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

FINANCIAL CALENDAR

Ordinary shares trade ex-dividend	23 August 2011
Record (books close) date for dividend	29 August 2011
Dividend paid	22 September 2011
Annual General Meeting	3 November 2011

These dates are indicative and may be changed.

DIRECTORS' REPORT

The Directors present the following 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 2011.

DIRECTORS

The following persons were Directors of the Company during 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
Philip Howard	Director and Company Secretary (since 31 March 2011)

Malcolm Halstead was a Director and Company Secretary until his retirement on 31 March 2011.

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 $150,059,000 (2010: $136,852,000) after income tax expense of $63,697,000 (2010: $61,540,000).

DIVIDENDS

Since the end of the financial year, the Directors have declared a 15 cents per share ($84,202,000) fully franked dividend payable to shareholders on 22 September 2011.

A fully franked dividend of 10 cents per share ($56,135,000) was paid on 15 March 2011.

A fully franked dividend of 14 cents per share ($78,589,000) was paid on 22 September 2010.

REVIEW OF OPERATIONS

The consolidated profit before tax was $213,756,000 (2010: $198,392,000).

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 or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS
The Company 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 adversely impacted by 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, 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.

	2011 $	2010 $
Audit services – statutory	**254,865**	271,775
Taxation services – compliance	**474,413**	466,100
Taxation services – foreign tax agent	**26,525**	18,149
Other audit and assurance services	**23,828**	31,174
Advisory services – restructuring and related costs*	**18,651**	227,265
Total	**798,282**	1,014,463

* For 2011 (and 2010), the advisory services provided by PricewaterhouseCoopers predominantly related to 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, Chairman and member of the Audit and Remuneration Committees since 10 April 2007. (Age 63)

Mr Cole has over 33 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 the Chairman and Director of Challenger Listed Investments Limited.

DIRECTORS' REPORT
CONTINUED

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 61)

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.

Margaret Towers CA, GAICD
Independent Non-Executive Director, Chair of the Audit Committee and member of the Remuneration Committee since 10 April 2007. (Age 53)

Ms Towers is a Chartered Accountant with over 29 years experience in financial markets. She was formerly an Executive Vice President at Bankers Trust Australia and worked at Price Waterhouse. Ms Towers currently acts as an independent consultant to a number of Australian financial institutions. In May 2011, Ms Towers was appointed a Director of IMB Limited.

Kerr Neilson BCOM, ASIP
Managing Director since 12 July 1993. (Age 61)

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.

Philip Howard BCOM, CA
Finance Director and Company Secretary since 31 March 2011. (Age 50)

Mr Howard was also appointed Director of Platinum Investment Management Limited and Platinum Capital Limited on 31 March 2011. Mr Howard has been Platinum's Chief Operating Officer since his appointment to that role on 19 September 2001. Mr Howard is a Chartered Accountant with over 25 years experience in the financial services industry. Prior to Platinum, Mr Howard has held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

DIRECTORS' MEETINGS

The number of meetings held and attended by the Company's Directors during the year ended 30 June 2011 was as follows.

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	3	3
B Coleman	5	5	4	4	3	3
M Towers	5	5	4	4	3	3
K Neilson	5	4	–	–	–	–
P Howard (from 31 March 2011)	2	2	–	–	–	–
M Halstead (until 31 March 2011)	3	3	–	–	–	–

REMUNERATION REPORT (AUDITED)

Principles used to determine the nature and amount of remuneration

The Executive Directors review annually 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 in the Remuneration Report) are paid to Directors.

DIRECTORS' REPORT
CONTINUED

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	15,199	215,199
B Coleman	175,000	15,199	190,199
M Towers	175,000	15,199	190,199
Total remuneration	550,000	45,597	595,597

Base salary paid to the Non-Executive Directors remains unchanged from the prior year.

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 and Platinum Investment Management Limited.

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

Key management personnel compensation

The Executive Directors (K Neilson and P Howard) are employed by Platinum Investment Management Limited and receive their remuneration from Platinum Investment Management Limited. M Halstead was employed by Platinum Investment Management Limited until his retirement on 31 March 2011.

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 compensation relates to the Company. Platinum Investment Management Limited paid: K Neilson a salary of $400,000 (2010: $364,468) and superannuation of $15,199 (2010: $49,993), P Howard a salary of $100,000, a bonus of $257,500 and superannuation of $3,800 from the date of his appointment to the Board on 31 March 2011 to 30 June 2011 and M Halstead a salary of $236,400 (2010: $314,468) and superannuation of $11,399 (2010: $49,993) until the date of his retirement from the Board on 31 March 2011.

In addition, M Halstead received a payment of $118,226 representing accrued annual leave of $24,941 and accrued long service leave of $93,285.

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 $350,000 (2010: $339,464), a bonus of $177,000 (2010: $630,000) and superannuation of $15,199 (2010: $24,997).

Platinum Investment Management Limited provided for an increase in long service leave as follows: K Neilson $8,012 (2010: $7,258), P Howard $31,742 and A Clifford $5,725 (2010: $7,216) and provided for an increase/(decrease) in annual leave as follows: K Neilson ($6,130) (2010: ($13,793)), P Howard $12,014 and A Clifford ($10,728) (2010: ($4,023)).

Relevant 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 1/07/10	ACQUISITIONS	DISPOSALS	BALANCE 30/06/11
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
P Howard (appointed 31 March 2011)	104,281	–	–	104,281

Share-based compensation

On 22 May 2007, P Howard was granted 841,500 options. These options were granted at a strike price of $5. The options vested on 22 May 2011 and have a two year exercise period. At the date of this report, no options have been exercised. The assessed fair value of options granted on 22 May 2007 was $0.82 per option. The share-based payments expense relating to this grant to P Howard was $153,235 (2010: $172,066).

On 17 June 2009, P Howard was granted 856,898 options and A Clifford was granted 3,844,350 options. These options were granted at a strike price of $4.50. The options vest on 17 June 2013 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 P Howard was $243,359 (2010: $243,359). The share-based payments expense relating to this grant to A Clifford was $1,091,795 (2010: $1,091,795).

No options were granted to any Director during the 2011 year.

Other than what is disclosed in the Remuneration Report, no Executive or Non-Executive Director of the Company has ever received options or performance rights in the Company.

DIRECTORS' REPORT

CONTINUED

Service agreements

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

M Cole, Chairman and Non-Executive Director

- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation, is $215,199.

B Coleman, Non-Executive Director

- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation, is $190,199.

M Towers, Non-Executive Director

- Agreement has no termination date. Tenure is subject to approval by shareholders at every third AGM.
- Base annual salary, inclusive of superannuation, is $190,199.

Directors' Interests in Contracts

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

Directors' Insurance

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

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

MICHAEL COLE
CHAIRMAN

KERR NEILSON
DIRECTOR

Sydney, 18 August 2011

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 2011, 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

PARTNER
PRICEWATERHOUSECOOPERS

Sydney, 18 August 2011

Liability limited by a Scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement provides a summary of the main corporate governance practices adopted by the Board and exercised throughout the year for the Company.

The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* ("Governance Principles"), except where indicated.

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

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

1. THE BOARD OF DIRECTORS

Members: M Cole (Chair), B Coleman, M Towers, K Neilson and P Howard.

Changes to the Board since last report:

– Malcolm Halstead retired 31 March 2011
– Philip Howard appointed 31 March 2011

The Board has adopted a Charter that 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;
– overseeing the integrity of the Group's financial accounts and reporting;
– assessing the performance of Management and itself;
– 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 Structure of the Board

The Board currently comprises five Directors: three Non-Executive Directors (M Cole, B Coleman and M Towers) and two Executive Directors (K Neilson and P Howard).

Details on the background, experience and professional skills of each Director are set out in the Directors' Report on pages 15 and 16.

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

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

1.4 Director Independence

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

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

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

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

Details of offices held by Directors with other organisations are set out in the Directors' Report on pages 15 and 16. Full details of related party dealings are set out in the notes to the Company's accounts as required by law.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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

– the specific disclosures made by each Director as referred to on the previous page;
– where applicable, the related party dealings referable to each Director, noting whether those dealings are "material";
– whether a Director is (or is associated directly with) a substantial shareholder of the Company;
– whether the Director has ever been employed by the Group;
– whether the Director is (or is associated with) a "material" professional adviser, consultant, supplier, or customer of the Group; and
– whether the Director personally carries on any role for the Group other than as a Director of the Company.

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

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

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

1.5 Selection and Appointment of Directors

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

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

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

The Board seeks to ensure that:

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

Under the terms of the Company's Constitution:

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

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

CORPORATE GOVERNANCE STATEMENT
CONTINUED

1.6 Access to Information and Independent Advice
All Directors have unrestricted access to records and information of the Group.

Non-Executive Directors receive regular updates and reports from Management.

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.

1.7 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.

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

2. BOARD COMMITTEES
The Board has established a number of committees to assist in the execution of its duties and (from time to time) to deal with matters of special importance. Each Committee operates under an approved Charter.

2.1 Audit Committee
Members: M Towers (Chair), M Cole and B Coleman.

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

- review 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;

2.1 Audit Committee CONTINUED

– 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.

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

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.

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

Attendance at Committee meetings is provided in the Directors' Report on page 17.

2.2 Remuneration Committee

Members: B Coleman (Chair), M Cole and M Towers.

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.

Attendance at Remuneration Committee meetings is provided in the Directors' Report on page 17.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 law or ASX Listing Rules.

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

Executive and Non-Executive Directors may also be reimbursed for their expenses properly incurred as Directors. Further information is provided in the Remuneration Report.

Remuneration Paid
Remuneration paid to the Executive and Non-Executive Directors for the 2010/2011 reporting year is set out on pages 17 to 20 of the Directors' Report.

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

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

PricewaterhouseCoopers was appointed as Auditor in 2007. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years.

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

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

4. COMPANY POLICIES

4.1 Directors' Code of Conduct

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

4.2 Trading in Company Securities

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 1 January (each year) until announcement of the Company's half-yearly financial results to the ASX;
- from 1 July (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 that operate to limit the economic risk of holding PTM shares over unvested entitlements.

4.3 Financial Reporting

In respect of the year ended 30 June 2011, 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 that implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

4.4 Continuous Disclosure
The Board is committed to:

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

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

4.5 Shareholder Communication
The Board has adopted a Communications Plan that 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, Annual General Meeting, 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.

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 ISO 31000:2009 *Risk Management – Principles and Guidelines* 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;

4.6 Risk Management and Compliance CONTINUED

– 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 reports periodically to the Audit Committee and the Board on the effectiveness of the Group's risk management and compliance frameworks.

4.7 Business Rules of Conduct

Platinum's Business Rules of Conduct ("BROC") applies to all staff of the Group. 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. All employees are required to sign an annual declaration confirming their compliance with the BROC and the Group's policies.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000
Income			
Management fees		**236,021**	217,398
Performance fees		**5,638**	10,702
Administration fees		**11,866**	11,155
Interest		**11,940**	8,024
Net gains/(losses) on financial assets at fair value through profit or loss		**(552)**	1,328
Net (losses) on foreign currency contracts		**(8)**	(17)
Net (losses) on foreign currency bank accounts		**(416)**	(258)
Other investments		**130**	23
Total income		**264,619**	248,355
Expenses			
Staff		**19,997**	18,781
Custody and unit registry		**12,155**	11,330
Share-based payments	6	**5,975**	6,611
Business development		**4,473**	5,568
Technology		**1,641**	1,089
Rent and other occupancy		**1,493**	1,447
Research		**1,490**	1,494
Other professional		**667**	509
Legal and compliance		**557**	553
Depreciation		**493**	417
Restructuring and related costs		**447**	568
Miscellaneous		**421**	456
Share registry		**405**	388
Mail house		**263**	284
Statutory audit fee	17	**255**	272
Periodic reporting		**131**	196
Total expenses		**50,863**	49,963
Profit before income tax expense		**213,756**	198,392
Income tax expense	2(a)	**63,697**	61,540
Profit after income tax expense		**150,059**	136,852
Other comprehensive income		**–**	–
Total comprehensive income for the year		**150,059**	136,852
Basic earnings per share (cents per share)	8	**26.73**	24.39
Diluted earnings per share (cents per share)	8	**26.32**	23.33

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

BALANCE SHEET

AS AT 30 JUNE 2011

	NOTES	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000
Current assets			
Financial assets at fair value through profit or loss		**7,468**	663
Cash and cash equivalents	12(a)	**232,761**	29,758
Term deposits		**813**	194,128
Trade receivables		**21,114**	21,446
Interest receivable		**1,823**	3,062
Prepayments		**1,112**	956
Total current assets		**265,091**	250,013
Non-current assets			
Deferred tax assets	2(b)	**1,506**	2,030
Fixed assets	3	**2,421**	2,550
Total non-current assets		**3,927**	4,580
Total assets		**269,018**	254,593
Current liabilities			
Payables	4	**5,216**	11,418
Current tax payable		**14,653**	15,204
Provisions	5	**1,704**	1,626
Total current liabilities		**21,573**	28,248
Non-current liabilities			
Deferred tax liabilities	2(c)	**687**	921
Provisions	5	**50**	26
Total non-current liabilities		**737**	947
Total liabilities		**22,310**	29,195
Net assets		**246,708**	225,398
Equity			
Contributed equity	7(a)	**629,091**	629,091
Reserves	7(b)	**(567,151)**	(573,126)
		61,940	55,965
Retained profits	9	**184,768**	169,433
Total equity		**246,708**	225,398

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	CONSOLIDATED CONTRIBUTED EQUITY $'000	CONSOLIDATED RESERVES $'000	CONSOLIDATED RETAINED PROFITS $'000	CONSOLIDATED TOTAL $'000
Balance at 1 July 2009		**629,091**	**(579,737)**	**144,781**	**194,135**
Total comprehensive income for the year		–	–	136,852	136,852
Transactions with equity holders in their capacity as equity owners:					
Share-based payments	6	–	6,611	–	6,611
Dividends paid	10	–	–	(112,200)	(112,200)
Balance at 30 June 2010		**629,091**	**(573,126)**	**169,433**	**225,398**
Total comprehensive income for the year		–	–	150,059	150,059
Transactions with equity holders in their capacity as equity owners:					
Share-based payments	6	–	5,975	–	5,975
Dividends paid	10	–	–	(134,724)	(134,724)
Balance at 30 June 2011		**629,091**	**(567,151)**	**184,768**	**246,708**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000
Cash flow from operating activities			
Interest received		**13,178**	8,797
Receipts from operating activities		**253,987**	242,111
Payments for operating activities		**(50,724)**	(38,638)
Income taxes paid		**(63,959)**	(55,930)
Cash flow from operating activities	12(b)	**152,482**	156,340
Cash flow from investing activities			
Receipts from sales of financial assets		**4,067**	14,010
Payments for purchases of financial assets		**(11,420)**	(13,491)
Payments for purchases of fixed assets		**(367)**	(311)
Proceeds on maturity of term deposits and bank certificates of deposit		**194,940**	167,315
Purchases of term deposits and bank certificates of deposit		**(1,625)**	(196,111)
Cash flow from investing activities		**185,595**	(28,588)
Cash flow from financing activities			
Dividends paid		**(134,646)**	(112,194)
Cash flow from financing activities		**(134,646)**	(112,194)
Net increase/(decrease) in cash and cash equivalents		**203,431**	15,558
Cash and cash equivalents held at the beginning of the financial year		**29,758**	14,269
Effects of exchange rate changes on cash and cash equivalents		**(428)**	(69)
Cash and cash equivalents held at the end of the financial year	12(a)	**232,761**	29,758

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

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 the financial statements for Platinum Asset Management Limited as a consolidated entity, consisting of Platinum Asset Management Limited and its subsidiaries. The *Corporations Amendment (Corporate Reporting Reform) Act 2010* provides entities that present consolidated financial statements with the option of not having to present separate parent entity financial statements (and instead present key financial disclosures relating to the parent entity in a separate note to the accounts). The parent entity financial disclosures have been prepared based on the same accounting policies used to prepare the financial report. The financial report was authorised for issue by the Directors of the Company on 18 August 2011. The Directors have the power to amend the financial statements after issue.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including AASB 101: *Presentation of Financial Statements*), 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 that are included in the accounting policies on the following pages.

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") and the results of all controlled entities for the year ended 30 June. 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 the 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Comprehensive Income 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.

(c) Income Tax

The income tax expense 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 unused tax losses.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Income Tax CONTINUED

Under AASB 112: *Income Taxes*, deferred tax balances are determined using the Balance Sheet method that calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. Deferred tax assets are recognised as deductible temporary differences if it is probable that future taxable amounts will be available to utilise those temporary differences.

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 that includes Platinum Asset Management Limited, Platinum Asset Pty Limited, Platinum Investment Management Limited and McRae Pty Limited.

Any current tax liabilities 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. On 23 June 2010, the Australian Taxation Office declared that the consolidated group is an Offshore Business Unit (OBU) under Australian Taxation Law. This allows the consolidated group to apply a concessional tax rate of 10% to net income it derives offshore. The concession was applied from 1 July 2010.

(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, that represent investments in unlisted unit trusts, are initially recognised at fair value.

Gains and losses arising from changes in the fair value of the financial assets are included in the Statement of Comprehensive Income in the period in which they arise. An assessment is made at the end of each reporting period whether there is objective evidence that a financial asset is impaired.

(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 on purchases of financial assets at fair value through profit or loss are expensed as incurred.

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 Statement of Comprehensive Income 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 fee rates.

Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(i) Cash and Cash Equivalents

In accordance with AASB 107: *Statement of Cash Flows*, cash includes deposits at call and cash at bank that are used to meet short-term cash requirements. Cash equivalents includes short-term deposits of three months or less from the date of acquisition that are readily convertible into cash. Cash and cash equivalents at the end of the financial year, as shown in the Statement of Cash Flows, are reconciled to the related item in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Cash and Cash Equivalents CONTINUED
At 30 June 2011, nearly all of the Group's term deposits have maturities of less than three months from the date of acquisition. However, at 30 June 2010, the Group held many term deposits that had maturities of more than three months from the date of acquisition. Under AASB 107, deposits that have maturities of more than three months are not included as part of "cash and cash equivalents" and were disclosed separately in the Balance Sheet. All term deposits were held with licensed Australian banks.

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 when a right to receive payment is established.

Debts that 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) Provision for Employee Entitlements
A provision for employee entitlements is recognised by the Group when there is an obligation to the employee. This is consistent with the legal position of the parties to the employment contract. Provision for employee entitlements to salaries, salary-related costs, annual leave and sick leave are accrued at nominal amounts calculated on the basis of current salary rates. Provision for long service leave, that are not to be paid or settled within 12 months of balance date, are accrued at the present values of future payments. 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 that 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.

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 6.

AASB 2009-8: *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions* (AASB 2) 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 on a straight line basis over the period that 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 (e.g. forfeitures) will be recognised in the Statement of Comprehensive Income with the corresponding adjustment to equity.

(n) Contributed Equity

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

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 weighted average number of shares used to determine basic earnings per share to take into account options and performance rights issued, but not exercised, under the Options and Performance Rights Plan (OPRP) (see Note 8).

(p) Depreciation

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

The expected useful lives are as follows:

Computer Equipment	4 years
Software	2½ years
In-house Software	4 years
Communications Equipment	4 – 20 years
Office Fit Out	5 – 13⅓ years
Office Furniture and Equipment	5 – 13⅓ years

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

(q) Operating Leases

Platinum Investment Management Limited has entered into a lease agreement for the premises it occupies and pays rent on a monthly basis.

Payments made under the operating lease are charged to the Income Statement. Details of the financial commitments relating to the lease are included in Note 16.

(r) Rounding of Amounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(s) Goods and Services Tax (GST)

Revenue, expenses, receivables and payables 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 2011 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 9: *Financial Instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective for annual periods beginning on or after 1 January 2015).

AASB 9: *Financial Instruments* provides revised guidance on the classification and measurement of financial assets. The requirements of this standard represents a significant change from the existing requirements of AASB 139 in respect of financial assets. The standard contains two primary measurement categories of financial assets: amortised cost and fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivables. Equity instruments will be measured at fair value with fair value changes in traded equity investments taken to the profit or loss. The standard would not have a significant impact on the Company or consolidated entity as its equity instruments are already recognised at fair value. The Company and consolidated entity will apply the revised standard from 1 July 2015.

(ii) Revised AASB 124: *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011).

The revised AASB 124 simplifies the definition of a "related party", clarifying its intended meaning and eliminating inconsistencies from the definition. The standard would not impact on the disclosures contained in the financial report.

The Company and consolidated entity will apply the revised standard from 1 July 2011.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

(iii) AASB 2009-12: *Amendments to Australian Accounting Standards* AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031; and *Interpretations* 2, 4, 16, 1039 and 1052 (effective for annual periods beginning on or after 1 January 2011).

The standard contains a variety of "editorial corrections", that reflect changes made to the text of equivalent IFRSs by the IASB. The Company and consolidated entity do not expect that any adjustments will be necessary as a result of applying the amendments. The Company and consolidated entity will apply the revised standards from 1 July 2011.

(iv) AASB 2010-4: *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project* (effective from 1 January 2011).

AASB 2010-4 makes amendments to various disclosure requirements including AASB 7: *Financial Instruments: Disclosures*, AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting*. The Company and consolidated entity do not expect any adjustments will be necessary as a result of applying the amendments. The Company and consolidated entity will apply the revised standards from 1 July 2011.

(v) AASB 2010-5: *Amendments to Australian Accounting Standards* AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and *Interpretations* 112, 115, 127, 132 and 1042 (effective for annual periods beginning on or after 1 January 2011).

The standard contains a variety of "editorial amendments" to a range of Australian Accounting Standards and Interpretations that reflect changes made to the text of equivalent IFRSs by the IASB. The Company and consolidated entity do not expect that any adjustments will be necessary as a result of applying the amendments. The Company and consolidated entity will apply the revised standards from 1 July 2011.

(vi) AASB 2010-6: *Amendments to Australian Accounting Standards: Disclosure on Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011).

AASB 2010-6 amends AASB 1: *First-time Adoption of Australian Accounting Standards* and AASB 7: *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposure arising from transfers of financial assets (for example, securitisations) and requires an understanding of the possible effects of any risks that remain with the entity that transfers the financial asset. The amendments will not have any impact on the Company's and consolidated entity's disclosures. The Company and consolidated entity will apply the revised standard from 1 July 2011.

2. INCOME TAX

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

	2011 $'000	2010 $'000
Current income tax provision	**63,323**	60,718
Deferred tax assets	**524**	1,048
Deferred tax liabilities	**(234)**	(224)
Under/(Over) provision of prior period tax	**84**	(2)
Income tax expense	**63,697**	61,540
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit. The difference is reconciled as follows:		
Profit before income tax expense	**213,756**	198,392
Prima facie income tax on profit at 30%	**64,127**	59,518
Tax effect on amounts that:		
Reduce tax payable:		
– Tax rate differential on offshore business income	**(2,317)**	–
– Allowable credits	**(8)**	(1)
– Non-assessable income	**(14)**	(1)
Tax effect of amounts that are non-deductible		
Increase tax payable:		
– Share-based payments	**1,793**	1,983
– Depreciation	**30**	41
– Other non-deductible expenses	**2**	2
Under/(Over) provision of prior period tax	**84**	(2)
Income tax expense	**63,697**	61,540

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

	2011 $'000	2010 $'000

2. INCOME TAX CONTINUED

(b) Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Capital expenditure not immediately deductible	**413**	1,204
Employee entitlements:		
– Long service leave	**265**	245
– Annual leave	**246**	243
Unrealised foreign exchange losses	**235**	21
Legal fees	**–**	105
Tax fees	**85**	85
Periodic reporting	**26**	40
Audit and accounting	**56**	50
Printing and mail house	**25**	27
Fringe benefits tax	**2**	2
Unrealised capital losses	**138**	–
Payroll tax	**15**	8
Deferred tax assets	**1,506**	2,030

(c) Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Interest not assessable	**687**	916
Unrealised capital gains	**–**	5
Deferred tax liabilities	**687**	921

3. FIXED ASSETS

	2011 $'000	2010 $'000
Computer equipment (at cost)	**934**	780
Less: Accumulated depreciation	**(675)**	(608)
	259	172
Purchased and capitalised software (at cost)	**2,500**	2,379
Less: Accumulated depreciation	**(1,948)**	(1,703)
	552	676
Communication equipment (at cost)	**102**	120
Less: Accumulated depreciation	**(76)**	(85)
	26	35
Office premises fit out (at cost)	**1,696**	1,696
Less: Accumulated depreciation	**(322)**	(269)
	1,374	1,427
Office furniture and equipment (at cost)	**476**	476
Less: Accumulated depreciation	**(266)**	(236)
	210	240
	2,421	2,550

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

	COMPUTER EQUIPMENT		PURCHASED AND CAPITALISED SOFTWARE	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
3. FIXED ASSETS CONTINUED				
Asset Movements during the year				
Opening balance	**172**	85	**676**	788
Additions	**215**	149	**142**	130
Disposals	**(1)**	–	**–**	(1)
Depreciation expense	**(127)**	(62)	**(266)**	(241)
Closing balance	**259**	172	**552**	676

	COMMUNICATIONS EQUIPMENT		OFFICE PREMISES FIT OUT	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Opening balance	**35**	26	**1,427**	1,486
Additions	**9**	30	**–**	–
Disposals	**(2)**	(3)	**–**	–
Depreciation expense	**(16)**	(18)	**(53)**	(59)
Closing balance	**26**	35	**1,374**	1,427

	OFFICE FURNITURE AND EQUIPMENT	
	2011 $'000	2010 $'000
Opening balance	**240**	275
Additions	**1**	2
Disposals	**–**	–
Depreciation expense	**(31)**	(37)
Closing balance	**210**	240

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 $11,000 at 30 June 2011 (2010: $8,000).

	2011 $'000	2010 $'000

4. PAYABLES

Current		
Trade creditors	**3,382**	9,613
Goods and Services Tax (GST)	**1,609**	1,658
Unclaimed dividends payable to shareholders	**225**	147
	5,216	11,418

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.

5. PROVISIONS

Current		
Long service leave	**883**	816
Annual leave	**821**	810
	1,704	1,626
Non-Current		
Payroll tax	**50**	26
	50	26

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

6. 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 22 May 2007 and 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 (net of forfeitures) vested on 22 May 2011 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.

Performance Rights

On 22 May 2007, employees who were not granted options under the OPRP, were granted performance rights to take up Platinum Asset Management Limited shares at a strike price of $nil. These performance rights vested after three years and had a further two year exercise period. Employees were initially granted 372,703 performance rights. No performance rights have been granted since 2007. All performance rights that were granted to employees (net of forfeitures) vested on 22 May 2010.

Options and performance rights on issue are as follows:

	2011 QUANTITY	2010 QUANTITY
Options Granted on 22 May 2007		
Opening balance	**16,547,817**	16,547,817
Vested – 22 May 2011	**(16,547,817)**	–
Closing balance – unvested	**–**	16,547,817
Options Granted on 17 June 2009		
Opening balance	**8,783,205**	8,783,205
Movement	**–**	–
Closing balance – unvested	**8,783,205**	8,783,205

At 30 June 2011, 16,547,817 options granted on 22 May 2007 have vested, but remain unexercised and 8,783,205 options granted on 17 June 2009 remain unvested and unexercised.

	2011 QUANTITY	2010 QUANTITY

6. SHARE-BASED PAYMENTS CONTINUED

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

Performance Rights Granted on 22 May 2007

	2011 QUANTITY	2010 QUANTITY
Opening balance	–	356,503
Forfeitures – 15 February 2010	–	(8,625)
Vested – 22 May 2010	–	(347,878)
Closing balance – unvested	–	–
Closing balance of unvested options and performance rights	**8,783,205**	25,331,022

	OPTIONS 22/05/07	OPTIONS 17/06/09	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 June 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

6. SHARE-BASED PAYMENTS CONTINUED

(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 are 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 is 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. A notional investment in the Platinum Trust Funds occurred on 1 April 2009, 1 April 2010 and 1 April 2011.

Fair Value of the Fund Appreciation Rights (FARs) Granted

The assessed fair value of FARs at 30 June 2011 is based on the notional market value of the investment in the Platinum Trust Funds at the three grant dates (i.e. 1 April 2009, 1 April 2010 and 1 April 2011 respectively) adjusted for the movement in notional value of units to 30 June 2011.

The fair value of FARs granted on 1 April 2009, to be amortised over a three year vesting period, was $550,000. The movement in the notional value of units between 1 July 2010 and 30 June 2011 was ($30,525) (2010: $69,587).

The fair value of FARs granted on 1 April 2010, to be amortised over a three year vesting period, was $1,015,000. The movement in the notional value of units between 1 July 2010 and 30 June 2011 was ($71,176) (2010: ($9,195) from 1 April 2010 to 30 June 2010).

The fair value of FARs granted on 1 April 2011, to be amortised over a three year vesting period, was $1,050,000. The movement in the notional value of units between 1 April 2011 and 30 June 2011 was ($39,654) (2010: $nil).

6. SHARE-BASED PAYMENTS CONTINUED

Expenses Arising from Share-Based Payment Transactions

	2011 $'000	2010 $'000
Total expenses arising from share-based payment transactions were as follows:		
Options granted on 22 May 2007 (vested 22 May 2011)	**3,013**	3,384
Options granted on 17 June 2009	**2,494**	2,494
Performance rights granted on 22 May 2007 (vested 22 May 2010)	**–**	405
Fund appreciation rights granted on 1 April 2009	**153**	253
Fund appreciation rights granted on 1 April 2010	**267**	75
Fund appreciation rights granted on 1 April 2011	**48**	–
Total share-based payments expense	**5,975**	6,611
Associated payroll tax expense/(write-back) on options and performance rights*	**–**	(3)
Associated payroll tax expense on fund appreciation rights*	**25**	18
Total	**6,000**	6,626

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

At 30 June 2011, the fair value remaining to be amortised over the remainder of the vesting period is $nil for the options granted on 22 May 2007, $nil for the performance rights granted on 22 May 2007, $4,893,315 for the options granted on 17 June 2009, $137,668 for the FARs granted on 1 April 2009, $592,392 for the FARs granted on 1 April 2010 and $962,819 for the FARs granted on 1 April 2011.

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

7. CONTRIBUTED EQUITY AND RESERVES

(a) Movement in share capital

	2011 QUANTITY '000	2011 $'000	2010 QUANTITY '000	2010 $'000
Ordinary shares – opening balance	**561,348**	**629,091**	561,000	629,091
Ordinary shares – issued				
24 May 2010*	**–**	**–**	348	–
Total Contributed equity	**561,348**	**629,091**	561,348	629,091

* On 24 May 2010, 347,878 performance rights that had vested were converted to ordinary shares. At 30 June 2011, no shares have been issued in relation to those options that vested on 22 May 2011 and hence the 16,547,817 options, whilst vested, remain unexercised.

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. All ordinary shares are issued and authorised.

(b) Movement in reserves

	2011 $'000	2010 $'000
Opening balance – Brought forward capital reserve	**(573,126)**	(579,737)
Vested shares – Options (granted on 22 May 2007)	**3,013**	3,384
Unvested shares – Options (granted on 17 June 2009)	**2,494**	2,494
Vested shares – Performance rights	**–**	405
Unvested shares – Fund appreciation rights (granted on 1 April 2009)	**153**	253
Unvested shares – Fund appreciation rights (granted on 1 April 2010)	**267**	75
Unvested shares – Fund appreciation rights (granted on 1 April 2011)	**48**	–
Closing Balance	**(567,151)**	(573,126)

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 Pty Limited and sufficient cash to meet its year to date income tax liability.

7. CONTRIBUTED EQUITY AND RESERVES CONTINUED

(b) Movement in reserves CONTINUED

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.

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 2010 is predominantly comprised of 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.

8. EARNINGS PER SHARE

	2011	2010
Basic earnings per share – cents per share	**26.73**	24.39
Diluted earnings per share – cents per share	**26.32**	23.33
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**561,347,878**	561,036,217
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share excluding options that are out of the money	**570,131,083**	586,684,311

	2011 $'000	2010 $'000
Earnings used in the calculation of basic and diluted earnings per share	**150,059**	136,852

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

	2011 $'000	2010 $'000
9. RETAINED PROFITS		
Retained earnings at the beginning of the financial year	**169,433**	144,781
Net profit	**150,059**	136,852
Dividends paid	**(134,724)**	(112,200)
Retained earnings at the end of the financial year	**184,768**	169,433

	2011 CENTS PER SHARE	2011 $'000	2010 CENTS PER SHARE	2010 $'000
10. DIVIDENDS (FULLY FRANKED)				
Paid – 22 September 2009	–	–	12.00	67,320
Paid – 16 March 2010	–	–	8.00	44,880
Paid – 22 September 2010	**14.00**	**78,589**	–	–
Paid – 15 March 2011	**10.00**	**56,135**	–	–
		134,724		112,200

Dividends not recognised at year-end

In addition to the above dividends paid, since year-end the Directors have declared the payment of a dividend of 15 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 2011, but not recognised as a liability at year-end, is $84,202,000.

	2011 $'000	2010 $'000
11. FRANKING ACCOUNT		
Opening balance based on tax paid and franking credits attached to dividends paid	**110,907**	98,276
Dividends paid – franked at 30%	**(57,739)**	(48,086)
Tax paid or payable	**63,408**	60,717
Estimated franking credits available	**116,576**	110,907

12. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash and Cash Equivalents

	2011 $'000	2010 $'000
Cash at bank	**266**	45
Cash on deposit (at call)	**5,880**	16,213
Term deposits (three months or less from date of acquisition)	**226,615**	13,500
	232,761	29,758

Information in relation to the consolidated entity's exposure to interest rate risk is provided in Note 18.

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

	2011 $'000	2010 $'000
Profit after income tax	**150,059**	136,852
Depreciation	**493**	417
Fixed assets scrapped	**3**	4
Share-based payments	**5,975**	6,611
(Gain)/loss on investments	**548**	(1,123)
Decrease/(Increase) in cash due to exchange rate movements	**428**	69
Decrease/(Increase) in trade receivables	**332**	2,849
Decrease/(Increase) in interest receivable	**1,239**	773
Decrease/(Increase) in prepayments	**(156)**	71
Decrease/(Increase) in deferred tax assets	**524**	1,048
(Decrease)/Increase in trade creditors and GST	**(6,280)**	4,364
(Decrease)/Increase in annual leave, long service leave and payroll tax provisions	**102**	(157)
(Decrease)/Increase in income tax payable	**(551)**	4,786
(Decrease)/Increase in deferred tax liabilities	**(234)**	(224)
	52,482	156,340

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

13. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS TO CAPITAL EXPENDITURE

No contingent assets or liabilities exist at 30 June 2011 and 30 June 2010.

The consolidated entity has no commitments for significant capital expenditure.

14. SUBSEQUENT EVENTS

No significant events have occurred since the balance date that would impact on the financial position of the consolidated entity as at 30 June 2011 and on the results for the year ended on that date.

15. SEGMENT INFORMATION

Under AASB 8: *Operating Segments*, the consolidated entity is considered to have a single operating segment being funds management services. However, AASB 8 requires certain entity-wide disclosures, such as source of revenue by geographic region. The consolidated entity derives management and performance fees from Australian investment vehicles and its US-based investment mandates.

The geographical breakdown of revenue is as follows:

	2011 $'000	2010 $'000
Australia	**252,311**	234,481
North America	**12,308**	13,874
	264,619	248,355

16. LEASE COMMITMENTS

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

	2011 $'000	2010 $'000
Operating leases		
Payable not later than one year	**1,448**	1,354
Payable later than one, not later than five years	**4,072**	5,411
	5,520	6,765

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.

	2011 $'000	2010 $'000
Statutory audit services	**255**	272
Taxation services – compliance	**474**	466
Taxation services – foreign tax agent	**26**	18
Other audit and assurance services	**24**	31
	779	787
Advisory services – restructuring and related costs	**19**	227
	798	1,014

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

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 (that include investment mandates, various unit trusts, known as the Platinum Trusts and its ASX-listed investment vehicle, Platinum Capital Limited). This note discusses the direct exposure to risk of the consolidated entity.

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

The direct risks and mitigation strategies are outlined below:

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

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

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

(iii) a reduction in the ability to retain and attract investors: that 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;

18. FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market Risk CONTINUED

(iv) a loss of key personnel; and

(v) investor allocation decisions: investors constantly re-assess and re-allocate their investments on the basis of their own preferences. Investor allocation decisions could operate independently from investment performance, such that funds outflows occur despite positive investment performance.

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.

For those Investment Mandates that pay a performance share fee, the fee is based on a proportion of each Mandate's investment performance. It is calculated at the end of each calendar year and is based upon the actual performance of each Investment Mandate for the year.

Performance fees 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 2011, performance fees of $nil were receivable (2010: $1,036,950).

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 that 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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

18. FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market Risk CONTINUED

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 2011.

(i) Foreign Exchange Risk

The consolidated entity has US dollar Investment Mandates and derives fees in US dollars from these mandates. In addition, the consolidated entity held US$1,669,772 (equivalent to A$1,557,333) in cash at 30 June 2011 (2010: US$1,671,092 (equivalent to A$1,987,502)). 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$1,111,554 higher/A$909,455 lower (2010: A$1,254,714 higher/A$1,026,946 lower).

(ii) Interest Rate Risk

At 30 June 2011, term deposits 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 2011 will have no impact on profit as the interest rate on term deposits are determined on purchase date.

(iii) Price Risk

At 30 June 2011, financial assets at fair value through profit or loss represent an immaterial amount of the consolidated entity's total assets and net profit. Accordingly, the consolidated entity does not have a significant direct exposure to price risk.

18. FINANCIAL RISK MANAGEMENT CONTINUED

(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 that includes: cash, receivables and term deposits. All term deposits 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 (for example, 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.

(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 2011, the consolidated entity has an obligation to settle trade creditors of $3,381,837 (2010: $9,612,788) between seven and 30 days after becoming legally liable, Goods and Services Tax liability of $1,609,641 (2010: $1,658,140) within 21 days and estimated income tax payable of $14,653,502 (2010: $15,204,065) within approximately five months and unclaimed dividends payable to shareholders of $225,199 (2010: $147,314), long service leave of $883,000 (2010: $816,000) and annual leave of $821,591 (2010: $810,181) payable at call. In addition, a payroll tax amount of $50,368 (2010: $25,803) has been provided for and is payable on vesting dates of rights under the FARP (March 2012, March 2013 and March 2014).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2011

18. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Liquidity Risk CONTINUED

At 30 June 2011, the consolidated entity has sufficient cash reserves of $232,761,124 (2010: $29,757,789) and a further $22,937,858 (2010: $24,507,333) of receivables to cover these liabilities. The current year cash reserves figure includes $226,615,000 of term deposits. All of these term deposits have maturities of three months or less from the date of acquisition.

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

(d) Fair Value Hierarchy

AASB 7: *Financial Instruments: Disclosures* requires the consolidated entity to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

At 30 June 2011 and 30 June 2010, all financial assets at fair value through profit or loss are classified as level 1 as all financial assets are valued based on quoted arm's length prices in active markets.

18. FINANCIAL RISK MANAGEMENT CONTINUED

(e) Capital Risk Management

(i) Capital requirements

The Company has limited capital requirements. 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 (that conducts the funds management business) is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investments Commission (ASIC) requires the subsidiary to:

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

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

19. 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 20.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

20. 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) – (indirectly 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).

21. RELATED PARTY DEALINGS

(a) Directors' remuneration
Details of all remuneration paid to Directors is disclosed in the Directors' Report and Note 22.

(b) Subsidiaries
Interests in subsidiaries are set out in Note 20.

(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 Limited 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 (that 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 recognised in the Statement of Comprehensive Income for the year ended 30 June 2011 was $209,839,040 (2010: $194,882,770). Of this, an amount of $16,469,022 was receivable at 30 June 2011 (2010: $18,276,267).

21. RELATED PARTY DEALINGS CONTINUED

(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. The amounts paid are disclosed in the Statement of Cash Flows.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of remuneration

The consolidated entity paid Executive and Non-Executive Directors total short-term compensation of $2,070,900 (2010: $2,198,400) and superannuation of $91,194 (2010: $168,366). Also provided for the Executive Directors of the Company was an increase in long service leave provision of $45,479 (2010: $20,454) and a decrease in annual leave provision of $4,844 (2010: $37,931). In addition, M Halstead received a payment of $118,226 representing $29,941 in accrued annual leave and $93,285 in accrued long service leave.

The above compensation figures include remuneration paid and provided to A Clifford, who is a Director of the operating subsidiary, Platinum Investment Management Limited. P Howard and A Clifford received share-based compensation that 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 had at balance date was: M Cole 300,000 (2010: 300,000), B Coleman 200,000 (2010: 200,000), M Towers 20,000 (2010: 20,000), K Neilson 322,074,841 (2010: 322,074,841) and P Howard 104,281.

(c) Share-based compensation

P Howard was granted 841,500 options in 2007 and 856,898 options in 2009. A Clifford, a Director of Platinum Investment Management Limited, was granted 3,844,350 options in 2009, but no options in any other year. No other options or performance rights have been granted to any Non-Executive or Executive Directors of the Company.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2011

22. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

(c) Share-based compensation CONTINUED

The 2007 options granted to P Howard were at a strike price of $5.00. The options vested on 22 May 2011 and have a further two year exercise period. At 30 June 2011, no options have been exercised. The assessed fair value of options granted in 2007 was $0.82 per option. The share-based payments expense relating to the 2007 grant to P Howard was $153,235 (2010: $172,066).

The 2009 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 in 2009 was $1.14 per option. The share-based payments expense relating to the 2009 grant to P Howard was $243,359 (2010: $243,359). The share-based payments expense relating to the 2009 grant to A Clifford was $1,091,795 (2010: $1,091,795).

23. PARENT ENTITY DISCLOSURES

Parent entity financial information is as follows:

(a) Current assets $14,879,000 (2010: $15,352,000)

(b) Total assets $665,436,000 (2010: $660,401,000)

(c) Current liabilities $14,878,000 (2010: $15,351,000)

(d) Total liabilities $14,878,000 (2010: $15,351,000)

(e) Issued share capital $629,091,000 (2010: $629,091,000)

(f) Reserves $20,050,000 (2010: $14,543,000)

(g) Shareholders' equity $650,558,000 (2010: $645,050,000)

(h) Operating profit before tax $134,724,000 (2010: $112,200,000)

(i) Operating profit after tax $134,724,000 (2010: $112,202,000)

(j) Total comprehensive income $134,724,000 (2010: $112,202,000)

There are no guarantees entered into by the parent entity in relation to debts of the subsidiaries, no contingent liabilities and no capital commitments.

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;

   (ii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

   (iii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

(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 that are set out in the Directors' Report on pages 17 to 20 comply with AASB 124: *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

MICHAEL COLE
DIRECTOR

KERR NEILSON
DIRECTOR

Sydney, 18 August 2011

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASSET MANAGEMENT LIMITED

pwc

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 2011, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for the Platinum Asset Management Limited group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the years end or from time to time during the 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 the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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*.

Auditor's opinion
In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASSET MANAGEMENT LIMITED CONTINUED

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report on pages 17 to 20 for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

PRICEWATERHOUSECOOPERS

AJ LOVERIDGE
PARTNER

Sydney, 18 August 2011

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EVOLUTION BY DESIGN

Design and production by: 3C Creative Agency, ***3c.com.au***
Illustrations by: Juan Travieso, ***juantravieso.com***

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Three-dimensional printing from digital designs will transform manufacturing and allow more people to start making things.

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Cheap stocks for an expensive world.

PREFACE

Evolution by Design encompasses the theme behind the 2011 editorial section of the Annual Report.

The first two articles from *The Economist* explore a new manufacturing technology – three dimensional printing. 'Additive manufacturing' as it is also known allows for the creation of single items on the same cost scale as it would to produce thousands. The consequences of this are far reaching and could have a profound impact on industry not seen since the industrial revolution; the implication on manufacturing now depending less on economies of scale and more on innovation and imagination.

Most tantalising of all is that the finished product can be made of metals, thereby expanding the number of applications many fold. It is also interesting that an international giant like Hewlett Packard has entered a global distribution agreement with one of the leading manufacturers. Unfortunately for those readers who are on the hunt for investible ideas, the number of listed 3D printing companies is small. There may be peripheral plays where one can find sintering companies or those involved with the software development, but one way or another, the industry is already significantly affecting concepts of manufacture and design.

The third article, provided for the second year by Dylan Grice from Société Générale, is titled 'Cheap stocks for an expensive world'.

Written in January this year, the essence of the article entreats investors to "…understand what things are worth to you, evaluate that valuation against prices, and only buy assets when they reach a suitably attractive discount." In the long run, the significance of value will win out.

It is really a lesson in patience and discipline. With all the daily excitement of markets, it is seductive to believe there is no reward for biding one's time but as Dylan illustrates, with a relatively crude portfolio selection method, the tortoise does outdo the hare by quite a margin.

In many ways, we find this article complementary to the commentary within the 30 June 2011 Platinum International Fund Quarterly Report in which we note that despite the turmoil over a century (1900-2008) which witnessed the suspension of market price-setting mechanisms, world and regional wars, the Great Depression and so on, the long-term return from equities still provides the most interesting return among asset classes.

We hope these articles provide you with some inspiration in difficult markets and an awareness that there are always opportunities. Further, that these can be magnified when addressed with a 'system' and patience.

KERR NEILSON
Managing Director, August 2011

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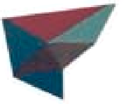
PRINT ME A STRADIVARIUS

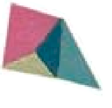
How a new manufacturing technology will change the world.

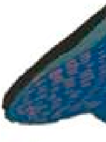
EW



THE industrial revolution of the late 18th century made possible the mass production of goods, thereby creating economies of scale which changed the economy – and society – in ways that nobody could have imagined at the time. Now a new manufacturing technology has emerged which does the opposite. Three-dimensional printing makes it as cheap to create single items as it is to produce thousands and thus undermines economies of scale. It may have as profound an impact on the world as the coming of the factory did.

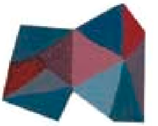
It works like this. First you call up a blueprint on your computer screen and tinker with its shape and colour where necessary. Then you press print. A machine nearby whirrs into life and builds up the object gradually, either by depositing material from a nozzle, or by selectively solidifying a thin layer of plastic or metal dust using tiny drops of glue or a tightly focused beam.





Products are thus built up by progressively adding material, one layer at a time: hence the technology's other name, additive manufacturing. Eventually the object in question – a spare part for your car, a lampshade, a violin – pops out. The beauty of the technology is that it does not need to happen in a factory. Small items can be made by a machine like a desktop printer, in the corner of an office, a shop or even a house; big items – bicycle frames, panels for cars, aircraft parts – need a larger machine, and a bit more space.

At the moment the process is possible only with certain materials (plastics, resins and metals) and with a precision of around a tenth of a millimetre. As with computing in the late 1970s, it is currently the preserve of hobbyists and workers in a few academic and industrial niches. But like computing before it, 3D printing is spreading fast as the technology improves and costs fall. A basic 3D printer, also known as a fabricator or 'fabber', now costs less than a laser printer did in 1985.



JUST PRESS PRINT

The additive approach to manufacturing has several big advantages over the conventional one. It cuts costs by getting rid of production lines. It reduces waste enormously, requiring as little as one-tenth of the amount of material. It allows the creation of parts in shapes that conventional techniques cannot achieve, resulting in new, much more efficient designs in aircraft wings or heat exchangers, for example. It enables the production of a single item quickly and cheaply – and then another one after the design has been refined.

For many years 3D printers were used in this way for prototyping, mainly in the aerospace, medical and automotive industries. Once a design was finalised, a production line would be set up and parts would be manufactured and assembled using conventional methods. But 3D printing has now improved to the point that it is starting to be used to produce the finished items themselves. It is already competitive with plastic injection-moulding for runs of around 1,000 items, and this figure will rise as the technology matures. And because each item is created individually, rather than from a single mould, each can be made slightly differently at almost no extra cost. Mass production could, in short, give way to mass customisation for all kinds of products, from shoes to spectacles to kitchenware.

> By reducing the barriers to entry for manufacturing, 3D printing should also promote innovation. If you can design a shape on a computer, you can turn it into an object. You can print a dozen, see if there is a market for them, and print 50 more if there is, modifying the design using feedback from early users.

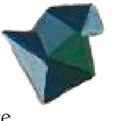
This will be a boon to inventors and start-ups, because trying out new products will become less risky and expensive. And just as open-source programmers collaborate by sharing software code, engineers are already starting to collaborate on open-source designs for objects and hardware.

THE JOBLESS TECHNOLOGY

A technological change so profound will reset the economics of manufacturing. Some believe it will decentralise the business completely, reversing the urbanisation that accompanies industrialisation. There will be no need for factories, goes the logic, when every village has a fabricator that can produce items when needed. Up to a point, perhaps. But the economic and social benefits of cities go far beyond their ability to attract workers to man assembly lines.

Others maintain that, by reducing the need for factory workers, 3D printing will undermine the advantage of low-cost, low-wage countries and thus repatriate manufacturing capacity to the rich world. It might; but Asian manufacturers are just as well placed as anyone else to adopt the technology. And even if 3D printing does bring manufacturing back to developed countries, it may not create many jobs, since it is less labour-intensive than standard manufacturing.

The technology will have implications not just for the distribution of capital and jobs, but also for intellectual-property (IP) rules. When objects can be described in a digital file, they become much easier to copy and distribute – and, of course, to pirate. Just ask the music industry. When the blueprints for a new toy, or a designer shoe, escape onto the internet, the chances that the owner of the IP will lose out are greater.



There are sure to be calls for restrictions on the use of 3D printers, and lawsuits about how existing IP laws should be applied. As with open-source software, new non-commercial models will emerge. It is unclear whether 3D printing requires existing rules to be tightened (which could hamper innovation) or loosened (which could encourage piracy). The lawyers are, no doubt, rubbing their hands.

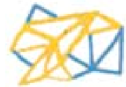
Just as nobody could have predicted the impact of the steam engine in 1750 – or the printing press in 1450, or the transistor in 1950 – it is impossible to foresee the long-term impact of 3D printing. But the technology is coming, and it is likely to disrupt every field it touches. Companies, regulators and entrepreneurs should start thinking about it now. One thing, at least, seems clear: although 3D printing will create winners and losers in the short term, in the long run it will expand the realm of industry – and imagination. ●

3D
THE PRINTED WORLD

Three-dimensional printing from digital designs will transform manufacturing and allow more people to start making things.

FILTON, just outside Bristol, is where Britain's fleet of Concorde supersonic airliners was built. In a building near a wind tunnel on the same sprawling site, something even more remarkable is being created. Little by little a machine is 'printing' a complex titanium landing-gear bracket, about the size of a shoe, which normally would have to be laboriously hewn from a solid block of metal. Brackets are only the beginning. The researchers at Filton have a much bigger ambition: to print the entire wing of an airliner.

Far-fetched as this may seem, many other people are using three-dimensional printing technology to create similarly remarkable things. These include medical implants, jewellery, football boots designed for individual feet, lampshades, racing-car parts, solid-state batteries and customised mobile phones. Some are even making mechanical devices. At the Massachusetts Institute of Technology (MIT), Peter Schmitt, a PhD student, has been printing something that resembles the workings of a grandfather clock. It took him a few attempts to get right, but eventually he removed the plastic clock from a 3D printer, hung it on the wall and pulled down the counterweight. It started ticking.



Engineers and designers have been using 3D printers for more than a decade, but mostly to make prototypes quickly and cheaply before they embark on the expensive business of tooling up a factory to produce the real thing.

As 3D printers have become more capable and able to work with a broader range of materials, including production-grade plastics and metals, the machines are increasingly being used to make final products too. More than 20% of the output of 3D printers is now final products rather than prototypes, according to Terry Wohlers, who runs a research firm specialising in the field. He predicts that this will rise to 50% by 2020.

Using 3D printers as production tools has become known in industry as 'additive' manufacturing (as opposed to the old, 'subtractive' business of cutting, drilling and bashing metal). The additive process requires less raw material and, because software drives 3D printers, each item can be made differently without costly retooling. The printers can also produce ready-made objects that require less assembly and things that traditional methods would struggle with.

CLICK TO MANUFACTURE

The printing of parts and products has the potential to transform manufacturing because it lowers the costs and risks. No longer does a producer have to make thousands, or hundreds of thousands, of items to recover his fixed costs. In a world where economies of scale do not matter any more, mass-manufacturing identical items may not be necessary or appropriate, especially as 3D printing allows for a great deal of customisation. Indeed, in the future some see consumers downloading products as they do digital music and printing them out at home, or at a local 3D production centre, having tweaked the designs to their own tastes. That is probably a faraway dream. Nevertheless, a new industrial revolution may be on the way.

Printing in 3D may seem bizarre. In fact it is similar to clicking on the print button on a computer screen and sending a digital file, say a letter, to an inkjet printer. The difference is that the 'ink' in a 3D printer is a material which is deposited in successive, thin layers until a solid object emerges.

The layers are defined by software that takes a series of digital slices through a computer-aided design. Descriptions of the slices are then sent to the 3D printer to construct the respective layers. They are then put together in a number of ways. Powder can be spread onto a tray and then solidified in the required pattern with a squirt of a liquid binder or by sintering it with a laser or an electron beam. Some machines deposit filaments of molten plastic. However it is achieved, after each layer is complete the build tray is lowered by a fraction of a millimetre and the next layer is added.

The researchers at Filton began using 3D printers to produce prototype parts for wind-tunnel testing. The group is part of EADS Innovation Works, the research arm of EADS, a European defence and aerospace group best known for building Airbuses. Prototype parts tend to be very expensive to make as one-offs by conventional means. Because their 3D printers could do the job more efficiently, the researchers' thoughts turned to manufacturing components directly.

Aircraft-makers have already replaced a lot of the metal in the structure of planes with lightweight carbon-fibre composites. But even a small airliner still contains several tonnes of costly aerospace-grade titanium. These parts have usually been machined from solid billets, which can result in 90% of the material being cut away. This swarf is no longer of any use for making aircraft.

To make the same part with additive manufacturing, EADS starts with a titanium powder. The firm's 3D printers spread a layer about 20-30 microns (0.02-0.03mm) thick onto a tray where it is fused by lasers or an electron beam. Any surplus powder can be reused. Some objects may need a little machining to finish, but they still require only 10% of the raw material that would otherwise be needed. Moreover, the process uses less energy than a conventional factory. It is sometimes faster, too.

There are other important benefits. Most metal and plastic parts are designed to be manufactured, which means they can be clunky and contain material surplus to the part's function but necessary for making it. This is not true of 3D printing. "You only put material where you need to have material," says Andy Hawkins, lead engineer on the EADS project. The parts his team is making are more svelte, even elegant. This is because without manufacturing constraints they can be better optimised for their purpose. Compared with a machined part, the printed one is some 60% lighter but still as sturdy.

FORM FOLLOWS FUNCTION

Lightness is critical in making aircraft. A reduction of 1kg in the weight of an airliner will save around $3,000-worth of fuel a year and by the same token cut carbon-dioxide emissions. Additive manufacturing could thus help build greener aircraft – especially if all the 1,000 or so titanium parts in an airliner can be printed. Although the size of printable parts is limited for now by the size of 3D printers, the EADS group believes that bigger systems are possible, including one that could fit on the 35-metre-long gantry used to build composite airliner wings. This would allow titanium components to be printed directly onto the structure of the wing.

Many believe that the enhanced performance of additively manufactured items will be the most important factor in driving the technology forward.

It certainly is for MIT's Mr Schmitt, whose interest lies in 'original machines'. These are devices not constructed from a collection of prefabricated parts, but created in a form that flows from the intention of the design. If that sounds a bit arty, it is: Mr Schmitt is a former art student from Germany who used to cadge time on factory lathes and milling machines to make mechanised sculptures. He is now working on novel servo mechanisms, the basic building blocks for robots. Custom-made servos cost many times the price of off-the-shelf ones. Mr Schmitt says it should be possible for a robot builder to specify what a servo needs to do, rather than how it needs to be made, and send that information to a 3D printer, and for the machine's software to know how to produce it at a low cost. "This makes manufacturing more accessible," says Mr Schmitt.

The idea of the 3D printer determining the form of the items it produces intrigues Neri Oxman, an architect and designer who heads a research group examining new ways to make things at MIT's Media Lab. She is building a printer to explore how new designs could be produced. Dr Oxman believes the design and construction of objects could be transformed using principles inspired by nature, resulting in shapes that are impossible to build without additive manufacturing. She has made items from sculpture to body armour and is even looking at buildings, erected with computer-guided nozzles that deposit successive layers of concrete.

Some 3D systems allow the properties and internal structure of the material being printed to be varied. This year, for instance, Within Technologies, a London company, expects to begin offering titanium medical implants with features that resemble bone. The company's femur implant is dense where stiffness and strength is required, but it also has strong lattice structures which would encourage the growth of bone onto the implant. Such implants are more likely to stay put than conventional ones.

Working at such a fine level of internal detail allows the stiffness and flexibility of an object to be determined at any point, says Siavash Mahdavi, the chief executive of Within Technologies. Dr Mahdavi is working on other lattice structures, including aerodynamic body parts for racing cars and special insoles for a firm that hopes to make the world's most comfortable stiletto-heeled shoes.

Digital Forming, a related company (where Dr Mahdavi is chief technology officer), uses 3D design software to help consumers customise mass-produced products. For example, it is offering a service to mobile-phone companies in which subscribers can go online to change the shape, colour and other features of the case of their new phone.

The software keeps the user within the bounds of the achievable. Once the design is submitted the casing is printed. Lisa Harouni, the company's managing director, says the process could be applied to almost any consumer product, from jewellery to furniture. "I don't have any doubt that this technology will change the way we manufacture things," she says.

Other services allow individuals to upload their own designs and have them printed. Shapeways, a New York-based firm spun out of Philips, a Dutch electronics company, last year, offers personalised 3D production, or 'mass customisation', as Peter Weijmarshausen, its chief executive, describes it. Shapeways prints more than 10,000 unique products every month from materials that range from stainless steel to glass, plastics and sandstone. Customers include individuals and shopkeepers, many ordering jewellery, gifts and gadgets to sell in their stores.

EOS, a German supplier of laser-sintering 3D printers, says they are already being used to make plastic and metal production parts by carmakers, aerospace firms and consumer-products companies. And by dentists: up to 450 dental crowns, each tailored for an individual patient, can be manufactured in one go in a day by a single machine, says EOS. Some craft producers of crowns would do well to manage a dozen a day. As an engineering exercise, EOS also printed the parts for a violin using a high-performance industrial polymer, had it assembled by a professional violin-maker and played by a concert violinist.

Both EOS and Stratasys, a company based in Minneapolis which makes 3D printers that employ plastic-deposition technology, use their own machines to print parts that are, in turn, used to build more printers. Stratasys is even trying to print a car, or at least the body of one, for Kor Ecologic, a company in Winnipeg, whose boss, Jim Kor, is developing an electric-hybrid vehicle called Urbee.

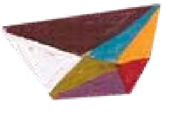
Making low-volume, high-value and customised components is all very well, but could additive manufacturing really compete with mass-production techniques that have been honed for over a century? Established techniques are unlikely to be swept away, but it is already clear that the factories of the future will have 3D printers working alongside milling machines, presses, foundries and plastic injection-moulding equipment, and taking on an increasing amount of the work done by those machines.

Morris Technologies, based in Cincinnati, was one of the first companies to invest heavily in additive manufacturing for the engineering and production services it offers to companies. Its first intention was to make prototypes quickly, but by 2007 the company says it realised 'a new industry was being born' and so it set up another firm, Rapid Quality Manufacturing, to concentrate on the additive manufacturing of higher volumes of production parts. It says many small and medium-sized components can be turned from computer designs into production-quality metal parts in hours or days, against days or weeks using traditional processes. And the printers can build unattended, 24 hours a day.

Neil Hopkinson has no doubts that 3D printing will compete with mass manufacturing in many areas. His team at Loughborough University has invented a high-speed sintering system. It uses inkjet print-heads to deposit infra-red-absorbing ink on layers of polymer powder which are fused into solid shapes with infra-red heating. Among other projects, the group is examining the potential for making plastic buckles for Burton Snowboards, a leading American producer of winter-sports equipment. Such items are typically produced by plastic injection-moulding. Dr Hopkinson says his process can make them for ten pence (16 cents) each, which is highly competitive with injection-moulding. Moreover, the designs could easily be changed without Burton incurring high retooling costs.

Predicting how quickly additive manufacturing will be taken up by industry is difficult, adds Dr Hopkinson. That is not necessarily because of the conservative nature of manufacturers, but rather because some processes have already moved surprisingly fast. Only a few years ago making decorative lampshades with 3D printers seemed to be a highly unlikely business, but it has become an industry with many competing firms and sales volumes in the thousands.

Dr Hopkinson thinks Loughborough's process is already competitive with injection-moulding at production runs of around 1,000 items. With further development he expects that within five years it would be competitive in runs of tens if not hundreds of thousands. Once 3D printing machines are able to crank out products in such numbers, then more manufacturers will look to adopt the technology.



Will Sillar of Legerwood, a British firm of consultants, expects to see the emergence of what he calls the 'digital production plant': firms will no longer need so much capital tied up in tooling costs, work-in-progress and raw materials, he says. Moreover, the time to take a digital design from concept to production will drop, he believes, by as much as 50-80%. The ability to overcome production constraints and make new things will combine with improvements to the technology and greater mechanisation to make 3D printing more mainstream. "The market will come to the technology," Mr Sillar says.

Some in the industry believe that the effect of 3D printing on manufacturing will be analogous to that of the inkjet printer on document printing.

The written word became the printed word with the invention of movable-type printing by Johannes Gutenberg in the 15th century. Printing presses became like mass-production machines, highly efficient at printing lots of copies of the same thing but not individual documents. The inkjet printer made that a lot easier, cheaper and more personal. Inkjet devices now perform a multitude of printing roles, from books on demand to labels and photographs, even though traditional presses still roll for large runs of books, newspapers and so on.

A CUSTOMISED FUTURE

How would this translate to manufacturing? Most obviously, it changes the economics of making customised components. If a company needs a specialised part, it may find it cheaper and quicker to have the part printed locally or even to print its own than to order one from a supplier a long way away. This is more likely when rapid design changes are needed.

Printing in 3D is not the preserve of the West: Chinese companies are adopting the technology too. Yet you might infer that some manufacturing will return to the West from cheap centres of production in China and elsewhere. This possibility was on the agenda of a conference organised by DHL last year. The threat to the logistics firm's business is clear: why would a company airfreight an urgently needed spare part from abroad when it could print one where it is required?

Perhaps the most exciting aspect of additive manufacturing is that it lowers the cost of entry into the business of making things. Instead of finding the money to set up a factory or asking a mass-producer at home (or in another country) to make something for you, 3D printers will offer a cheaper, less risky route to the market. An entrepreneur could run off one or two samples with a 3D printer to see if his idea works. He could make a few more to see if they sell, and take in design changes that buyers ask for. If things go really well, he could scale up – with conventional mass production or an enormous 3D print run.

This suggests that success in manufacturing will depend less on scale and more on the quality of ideas. Brilliance alone, though, will not be enough. Good ideas can be copied even more rapidly with 3D printing, so battles over intellectual property may become even more intense. It will be easier for imitators as well as innovators to get goods to market fast. Competitive advantages may thus be shorter-lived than ever before. As with past industrial revolutions, the greatest beneficiaries may not be companies but their customers. But whoever gains most, revolution may not be too strong a word. ●

POPULAR DELUSIONS

CHEAP STOCKS FOR AN EXPENSIVE WORLD

By: Dylan Grice
from Société Générale Cross Asset Research Global Strategy Document, 31 January 2011

People say '*the current juncture is just so murky at the moment*'. But when isn't it? Since all we reliably know is that some things will trade at the wrong price some of the time, understanding what things are worth and waiting for prices to deviate significantly might be a more constructive ideal to aspire to. Today, I think equity markets are generally on the expensive side but opportunities haven't completely dried up. There are *some* stocks with robust balance sheets trading at significant discounts to intrinsic value. Just not that many.

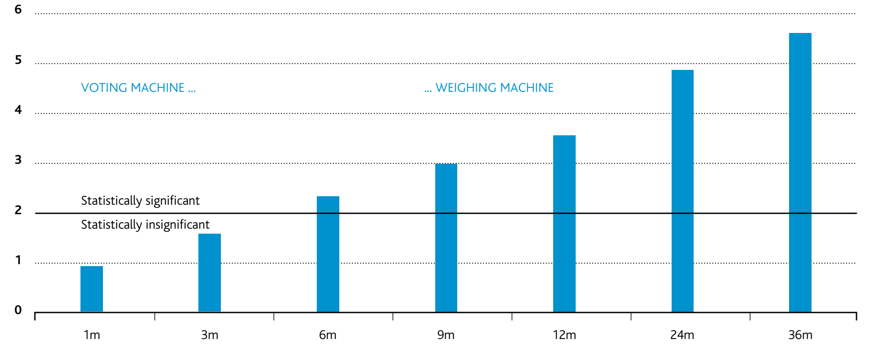
DELU-
SIONS

- So, I've been rereading past Berkshire Hathaway shareholder letters these past few weeks (we lead pretty exciting lives here in the SG strategy team). In 2009, referring to his purchase of Allied Irish and Bank of Ireland, Buffett wrote "*I made some other already recognizable errors as well. They were smaller, but unfortunately not that small. During 2008, I spent $244 million for shares of two Irish banks that appeared cheap to me. At year-end we wrote these holdings down to market: $27 million, for an 89% loss. Since then the two stocks have declined even further. The tennis crowd would call my mistakes 'unforced errors'.*" Warren E. Buffett predicted neither the credit crisis nor its magnitude.

- What I find interesting is that it didn't matter, in the sense that at $217m, the loss Berkshire wore on the Irish banks at the time was less than half the annual dividend earned on the 10% preference shares he was able to buy from Goldman Sachs at the height of the crisis. And the reason he managed to extract such favourable terms from Goldman was that he was the only guy around with ample liquidity. And the reason he had ample liquidity was because, the above errors notwithstanding, there weren't enough obvious bargains around in the years preceding the crisis. While he didn't predict *the* crisis, his value-discipline nevertheless prepared him for *a crisis*.

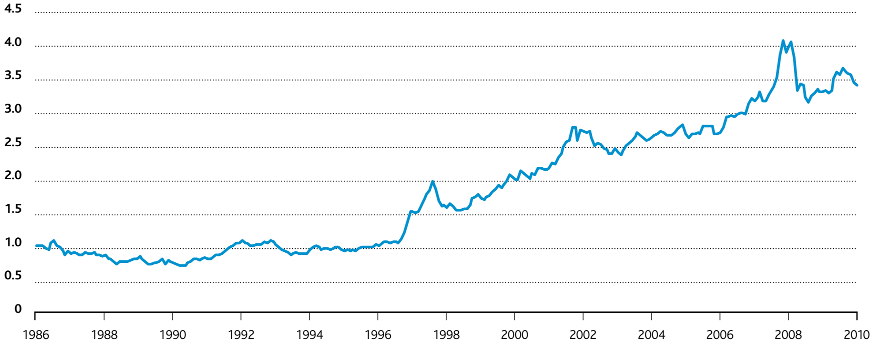
- We don't need to be able to predict the future. Doing our homework, understanding what stuff is worth and transacting when prices depart significantly thereof isn't as easy as it sounds. But, as Ben Graham said, if in the short term the market is a voting machine, in the long run it's a weighing machine. The following chart shows that value is indeed statistically *insignificant* in the short run. But it wins outs in the end.

The statistical significance of 'value' over different time horizons (t-stat shown on l/h axis)
Source: *Factset, SG Cross Asset Research*



Here's an interesting chart. It shows the historic outperformance of 'high quality' stocks versus 'low quality' using the FTSE World non-financial stocks, and using the Piotroski score to classify value[1]. The historical annualized performance has been around 520bp.

Last free lunch in finance? High vs low quality stocks cumulative outperf. (annual return 5.2%)
Source: *SG Cross Asset Research*



1 The Piotroski score is based on a nine-criterion ranking system, calculating various ratios from historical accounts. It ranges from 0 (lowest score) to 9 (highest score) with higher scores suggesting sounder financial health. See '*Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers*', by Joseph Piotroski, Journal of Accounting Research, 2002.

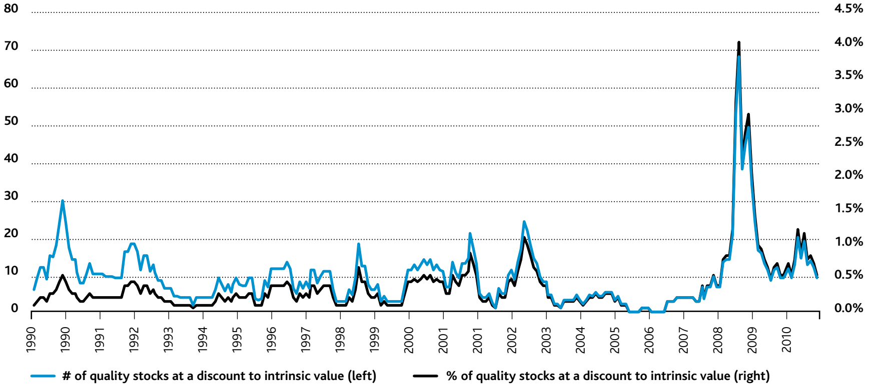
In one sense, this shouldn't be surprising. One of the (many) well-known empirical flaws in the EMH is that low beta stocks that are 'low risk' and which therefore should have a lower return actually don't. Indeed, GMO's Jeremy Grantham has referred to this opportunity of being able to make higher returns by taking on less risk as the last free lunch in finance.

But, the interesting thing about this chart, to me anyway, is that the stock baskets have been selected *entirely* on their Piotroski score. In other words, it shows the returns a hypothetical investor would have made had he bought the basket of high quality stocks and sold short the basket of low quality companies *regardless of their valuation*.

Suppose we use the Piotroski score to isolate high quality companies. Then subject those high quality companies to the usual value discipline by selecting *only* those which trade at a discount to estimated intrinsic value (I use a 33% discount). Such stocks have historically returned around 1.9% per month, which annualises at around 25% per year, a tidy return in anyone's book. The problem is that hardly any stocks pass such a stringent test. Indeed, one might call this *absurdly* deep value. 'Hardly any' doesn't mean 'none' but the following chart shows that you're doing well if half of one percent of the universe passes the test[2].

2 Of course, this apparent paucity of historic opportunities is partly a function of the methodology I've used to estimate intrinsic value, which is quite a stringent version of Steve Penman's Residual Income Model. And one of the most common requests I've had from clients is for a detailed explanation of how I estimate 'intrinsic values.' I will provide this next week.

Closer to famine than feast: incidence of 'high quality' at a discount to intrinsic value
Source: *Factset, SG Cross Asset Research*

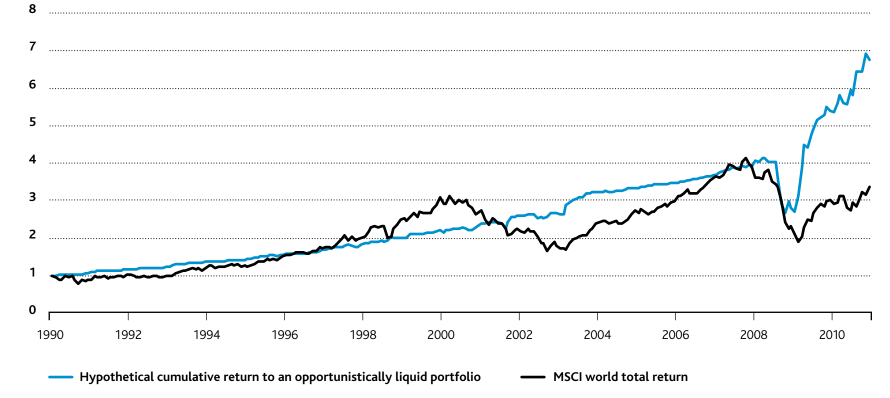


But, as the chart shows, there are times, albeit infrequent, when Mr Market offers up a veritable feast of companies passing such stringent criteria. Although today isn't one of them, neither is it the famine seen in 2005 and 2006. We don't know when these feasts are going to happen. We just know that they will, sometime.

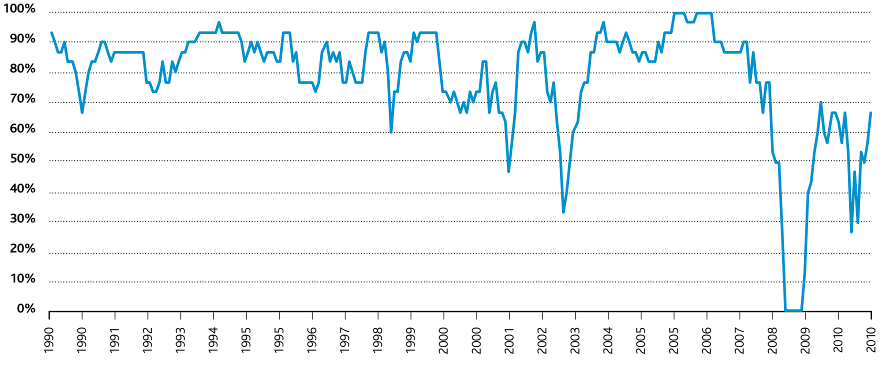
So the 'right' thing to do is to hold on to cash and wait until those opportunities arise. Suppose as your core portfolio – absent any insurance options – you wanted to hold a maximum of 30 stocks.

Each month, you allocate one-thirtieth of your capital to every stock you can find which passes your absurdly deep value screen. If on those rare occasions you find more than 30 stocks then I've assumed you just own them all equally weighted. But if you can't find 30 stocks, I assume the already allocated capital simply sits in cash. That way, you're sitting on cash opportunistically – so if you can find only 15 stocks, you're 50% cash. If you can't find *any* such stocks, you're 100% in cash. The following charts show the hypothetical return profile to this 'opportunistically liquid' portfolio, followed by the hypothetical cash allocation. Currently, this strategy would be 70% in cash at the moment, reflecting the narrowness of the current opportunity set.

Patience, liquidity ... and profitability? (cumulative returns, 1990 = 1)
Source: *SG Cross Asset Research, Factset*



Cash weighting in the opportunistically liquid portfolio
Source: *SG Cross Asset Research, Factset*



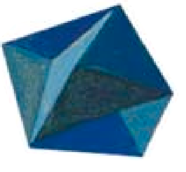
And here are the stocks which you'd currently be holding. Bear in mind that this exercise is illustrative and that these stocks are only the output from a quant screen I've built – I don't know much about most of these stocks, and am certainly not recommending you go out and buy them. (As I said, I'll detail the methodology, along with its pros and cons next week.)

High Quality trading at discount to estimated intrinsic value (IVP ratio >1.33)
Source: *SG Cross Asset Research*

Company Name	Country	Market Cap ($bn)	Sector	Bk Val/PS (lcl ccy)	10y ave RoE	Estimated Intrinsic Value	Monthly Closing Price	IVP	Piotroski Score
Telkom S.A.	South Africa	2,612	Integrated Telecommunication Services	58.3	26.0	102	35.1	2.9	8
Persimmon	UK	2,019	Homebuilding	5.4	19.8	9.2	3	2.7	7
BlueScope Steel	Australia	3,741	Steel	3.1	17.2	4.3	2	2.2	8
CME Group	United States	20,766	Specialised Finance	290.2	27.0	607	288	2.1	7
Pacific Corp.	South Korea	1,039	Personal Products	221,551	17.0	381,329	189,000	2.0	7
SK Networks	South Korea	2,758	Trading Companies and Distributors	12,257	22.7	21,285	10,950	1.9	8
TPV Technology	Hong Kong	1,467	Computer Storage and Peripherals	5.3	24.9	8.4	5	1.7	7
Funai Electric Co.	Japan	1,147	Consumer Electronics	4,167	10.6	4,717	2,844	1.7	7
Charter International	UK	2,100	Industrial Machinery	3.3	39.0	10.1	7	1.5	7
Akzo Nobel N.V.	Netherlands	14,540	Diversified Chemicals	33.5	30.7	60	41	1.4	8
Western Digital Corp	United States	7,241	Computer Storage and Peripherals	17.0	39.3	46	34	1.4	7
Ricoh Co.	Japan	10,380	Office Electronics	1,341	10.2	1,577	1,181	1.3	8

So right now, the 'right' thing to do is to be liquid and hold plenty of cash. The problem is that knowing what the 'right' thing to do is, even when it's really simple, doesn't make doing it any easier. People write books and build careers on helping other people lose weight, even though losing weight is one of the simplest things in the world (exercise more, eat less). The same is true for stopping smoking. There are books and courses to help smokers kick the habit because so many people find it so difficult to do (unfortunately I know this only too well – why are Marlboro lights such a great idea the moment you get your first taste of Guinness?!) Yet there's nothing intrinsically complicated in stopping. Stop picking up cigarettes, putting them in your mouth, and smoking them.

Getting from the sequence of short-runs to the long run is the difficult bit. Sometimes the simplest things in theory are the hardest things in practice, and knowing the right thing to do is only the first step. So, understand what things are worth to you, evaluate that valuation against prices, and only buy assets when they reach a suitably attractive discount. If the risk to doing the right thing is of losing business because you're not doing what everyone else is doing, so be it – simple!



…but not easy. So what can we do? Dieters have support groups to help them resist the temptation to eat to excess. Smokers can buy nicotine patches to help resist the temptation to smoke. What do investors have to prevent them chasing higher prices and the seduction of the associated narrative? Not much, other than, perhaps, the wisdom of others. So with this in mind, I thought I'd leave you with this excerpt from the 2005 Berkshire letter, where Mr. Buffett explains the business philosophy behind the success of Berkshire's National Indemnity business (I've taken the liberty of charting the tabulated data from the original report).

2005 BERKSHIRE LETTER – *extract*

"Since Berkshire purchased National Indemnity ('NICO') in 1967, property-casualty insurance has been our core business and the propellant of our growth. Insurance has provided a fountain of funds with which we've acquired the securities and businesses that now give us an ever-widening variety of earnings streams. So in this section, I will be spending a little time telling you how we got where we are.

The source of our insurance funds is 'float,' which is money that doesn't belong to us but that we temporarily hold. Most of our float arises because (1) premiums are paid upfront though the service we provide – insurance protection – is delivered over a period that usually covers a year and; (2) loss events that occur today do not always result in our immediately paying claims, because it sometimes takes many years for losses to be reported (asbestos losses would be an example), negotiated and settled. The $20 million of float that came with our 1967 purchase has now increased – both by way of internal growth and acquisitions – to $46.1 billion.

Float is wonderful – if it doesn't come at a high price. Its cost is determined by underwriting results, meaning how the expenses and losses we will ultimately pay compare with the premiums we have received. When an underwriting profit is achieved – as has been the case at Berkshire in about half of the 38 years we have been in the insurance business – float is better than free. In such years, we are actually paid for holding other people's money. For most insurers, however, life has been far more difficult: In aggregate, the property-casualty industry almost invariably operates at an underwriting loss. When that loss is large, float becomes expensive, sometimes devastatingly so.

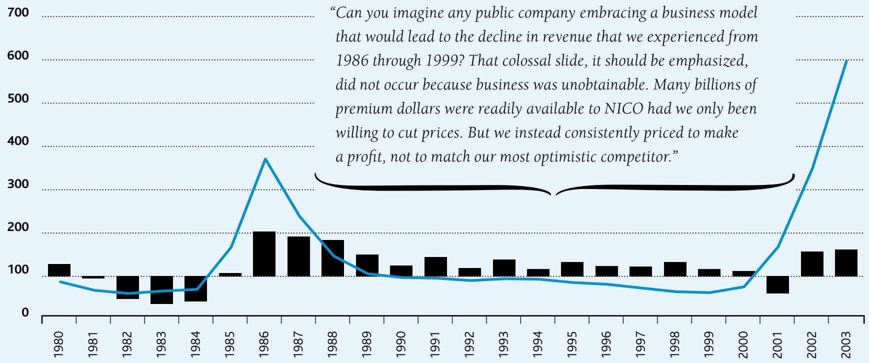
Insurers have generally earned poor returns for a simple reason: They sell a commodity-like product. Policy forms are standard, and the product is available from many suppliers, some of whom are mutual companies ('owned' by policyholders rather than stockholders) with profit goals that are limited. Moreover, most insureds don't care from whom they buy. Customers by the millions say 'I need some Gillette blades' or 'I'll have a Coke' but we wait in vain for 'I'd like a National Indemnity policy, please.' Consequently, price competition in insurance is usually fierce. Think airline seats.

So, you may ask, how do Berkshire's insurance operations overcome the dismal economics of the industry and achieve some measure of enduring competitive advantage? We've attacked that problem in several ways. Let's look first at NICO's strategy.

When we purchased the company – a specialist in commercial auto and general liability insurance – it did not appear to have any attributes that would overcome the industry's chronic troubles. It was not well-known, had no informational advantage (the company has never had an actuary), was not a low-cost operator, and sold through general agents, a method many people thought outdated. Nevertheless, for almost all of the past 38 years, NICO has been a star performer. Indeed, had we not made this acquisition, Berkshire would be lucky to be worth half of what it is today.

What we've had going for us is a managerial mindset that most insurers find impossible to replicate. Take a look at the facing page [DG: see chart]. Can you imagine any public company embracing a business model that would lead to the decline in revenue that we experienced from 1986 through 1999? That colossal slide, it should be emphasized, did not occur because business was unobtainable. Many billions of premium dollars were readily available to NICO had we only been willing to cut prices. But we instead consistently priced to make a profit, not to match our most optimistic competitor. We never left customers – but they left us.

Portrait of a disciplined underwriter
Source: *Berkshire Hathaway 2005 shareholders' letter*



Most American businesses harbor an 'institutional imperative' that rejects extended decreases in volume. What CEO wants to report to his shareholders that not only did business contract last year but that it will continue to drop? In insurance, the urge to keep writing business is also intensified because the consequences of foolishly-priced policies may not become apparent for some time. If an insurer is optimistic in its reserving, reported earnings will be overstated, and years may pass before true loss costs are revealed (a form of self-deception that nearly destroyed GEICO in the early 1970s)."

Dylan Grice *Société Générale Cross Asset Research from Global Strategy Document*, 31 January 2011, *Popular Delusions*.