Platinum® ASSET MANAGEMENT

ANNUAL REPORT 2015

PLATINUM ASSET MANAGEMENT LIMITED

ABN 13 050 064 287

DIRECTORS
Michael Cole
Bruce Coleman
Margaret Towers
Stephen Menzies
Kerr Neilson
Andrew Clifford
Elizabeth Norman
Andrew Stannard

SHAREHOLDER LIAISON
Elizabeth Norman

COMPANY SECRETARY
Janna Vynokur

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SECURITIES EXCHANGE LISTING
Platinum Asset Management Limited shares are listed on the Australian Securities Exchange
ASX Code: **PTM**

WEBSITE
www.platinum.com.au/Shareholder-information/

CORPORATE GOVERNANCE STATEMENT
www.platinum.com.au/Documents/Shareholders/ptm_corp_gov.pdf

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CHAIRMAN'S REPORT

Performance

The amount of money that we manage, so-called funds under management (FUM), is the key variable for the Platinum business model and an important determinant of our profit performance for the annual period.

The Company had a successful year underpinned by strong growth in FUM, which was assisted by solid absolute investment performance of our individual funds and investment mandates. The average level of FUM increased by 17.3% over the annual period.

As a result of strong FUM growth, management fees increased by 18.5% or $50.3 million to $322.1 million. The increase in management fees, together with the gains made on our US cash holdings (up $16.6 million), combined to more than offset the decrease in performance fees from $27.4 million in the previous period to $2.3 million for the 12 months to 30 June 2015.

Performance fees fluctuate materially from one annual period to the next. What is pleasing to report is that the Company was able to offset the decline in performance fees via an increase in FUM and management fees.

Costs have remained relatively constant with close monitoring and tight control. Staff costs decreased in the current year despite the increase in FUM and profit. This outcome is covered in the section dealing with remuneration matters but relates to the profit share scheme not operating, as it did not meet the investment outperformance hurdle.

These revenue and expense outcomes combined to generate a lift in net profit before tax to $301.6 million, an increase of $40.5 million or 15.5%.

The net profit after tax was impacted by the fact that the Platinum Group had less performance fees to apply the Offshore Banking Unit (OBU) tax concessional rate of 10%. This caused income tax expense to increase and as a result net profit after tax was $213.5 million (2014: $189.9 million), an increase of $23.6 million or 12.4%. This translated to diluted earnings per share of 36.7 cents per share, compared to 32.4 cents per share in FY2014, a lift of 13.3%.

The Company has a strong balance sheet with few liabilities.

Funds Under Management (FUM) Growth

The closing level of FUM increased by $4 billion or 17.1% to $26.9 billion at 30 June 2015. The increase in FUM was driven by strong investment performance, which contributed $5.3 billion. Fund distributions net of re-investments in our underlying Funds were $1.4 billion, a record level. Net investment flows totalled $0.08 billion.

Remuneration Matters

Staff costs actually declined this year (by $3.2 million or 10.3%) despite solid FUM, profit, share price and dividend growth already highlighted.

The level of bonuses paid to the investment team generally and the selected staff participation in the profit share scheme is dependent on achieving strong relative returns or outperformance of benchmark returns over a one and three year period. This close alignment between investment team remuneration and their ability to make money for our underlying investors is fundamental to what these talented men and women are employed to do.

Importantly, for a funds management business, one of the key drivers of FUM growth is investment performance. It is therefore appropriate that investment team remuneration is closely aligned to investment performance.

The alignment of remuneration to investment performance is a far better and more accurate measure of the firm's performance when compared to much simpler metrics such as the commonly used Total Shareholder Return (TSR). TSR measures share price appreciation or depreciation plus dividend reinvestment between two points in time. Whilst, over long periods of time, TSR will usually reflect the underlying performance of a company's business, it is Platinum's view that there are a number of issues in using TSR as a variable in employee remuneration. Shorter term variables, such as the macroeconomic environment or interest rates, are factors outside of the control of employees, but can overwhelm underlying developments in the business, and determine a company's share price. The result is that employees may be either unduly rewarded or punished by variables outside of their control. The use of TSR as an incentive, in our view, may encourage a focus on short-term outcomes such as current year earnings, or short-term investment returns, potentially at the expense of longer term business outcomes.

If PTM had used TSR as the basis of investment team remuneration in 2015, then bonuses may have increased significantly. This outcome would have occurred notwithstanding our relative investment returns, which, whilst acceptable, still lagged their respective benchmarks by the required outperformance margin.

It is our core belief that if Platinum successfully looks after its investors, then the resulting increase in performance and FUM will eventually reward shareholders through appreciation in the share price and increasing dividends.

CHAIRMAN'S REPORT
CONTINUED

Launching of New Products

The Platinum Group has had an extremely busy year launching or preparing to launch a range of products that will assist investors both in Australia and overseas to diversify their investment portfolio into global shares, via a world class fund manager.

Launch of new mFund Product

In September last year, PTM launched an mFund product, called Platinum Global Fund, on the ASX. This Fund has a long only investment strategy. It provides investors with the ability to invest directly via their broker or to invest directly in the product by coming through Platinum. The Fund's return has grown some 20.2% between inception date and 30 June 2015.

Launch of a new Listed Investment Company (LIC)

The Platinum Group has recently commenced an Initial Public Offering (IPO) associated with the launch of a new ASX listed investment company, Platinum Asia Investments Limited (**PAI**). This investment product will provide investors with a convenient means of gaining exposure to the fastest growing equities markets in the Asian region ex Japan.

PAI will take advantage of long-term capital growth investment opportunities in a region that is undergoing deep transformation and that offers compelling reasons to invest. The unlisted Platinum Asia Fund has an outstanding investment track record of consistent outperformance against the index since inception in 2003.

The Platinum Group intends to be a long-term co-investor in the new LIC and, through its wholly-owned subsidiary, Platinum Investment Management Limited, will subscribe for 25% of the total amount raised under the Offer subject to a cap of $50 million.

The Board is of the view the regional LIC exposure offered by PAI is a complementary investment for PTM shareholders. Of the $26.9 billion of FUM at 30 June 2015, we estimate that about one quarter of this total represents Chinese investments listed in China, Hong Kong or other stock exchanges.

Launch of Offshore Fund

In my 2014 Chairman's Report, I mentioned that PTM had been involved in extensive discussions with the Australian Government in relation to legislation that was aimed at removing the tax uncertainty that prevented Australian fund managers, like PTM, from being able to market their product globally.

We are pleased to report that these extensive discussions and lobbying efforts have resulted in the passing of legislation that is workable from an industry perspective. As a result we will shortly launch a new UCITS (Undertaking for Collective Investment in Transferable Securities) Fund, in Ireland, that would allow PTM to develop and grow its brand name offshore.

These are really exciting opportunities for PTM as the business moves to diversify the distribution of its investment products both here in Australia and internationally.

Dividends

The Directors have declared a fully-franked ordinary dividend of 20 cents per share will be paid on 22 September 2015.

A fully-franked ordinary dividend of 17 cents per share was paid on 18 March 2015.

This is in addition to the special dividend of 10 cents per share that was also paid on 18 March 2015. The special dividend was paid to return excess cash to shareholders, and in part represented proceeds received from the exercise of options made in 2009. The proceeds received were $28.5 million in the 2015 year and $39.5 million overall.

The total dividend for the year is 47 cents per share (or 37 cents per share excluding the special dividend) and this represents an increase from the previous 12 months, in which total dividends paid out were 34 cents per share.

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 and is unlikely to be activated in the near term.

The Board and its Associated Committees

During the year the Company was delighted to announce that Mr Stephen Menzies joined the PTM Board after a distinguished corporate law career. Stephen has proved to be an invaluable addition to the Board given his nearly three decades of legal background and experience associated with new product offerings across the funds management industry. As Stephen was appointed as an independent director to fill a casual vacancy he will offer himself for re-election to the Board at this year's AGM.

Mr Andrew Stannard recently joined the PTM Board as the Group's Finance Director and Chief Financial Officer. Andrew has 25 years of funds management industry experience and most recently was AllianceBernstein's Chief Financial Officer for the Asia-Pacific region. The appointment followed Philip Howard's resignation from the Board on 25 May 2015. We thank Philip for his contribution to the Platinum team since 2001. Andrew will also offer himself for re-election to the Board at this year's AGM.

CHAIRMAN'S REPORT
CONTINUED

Both the Nomination & Remuneration Committee and Audit, Risk & Compliance Committee had productive years. The Nomination & Remuneration Committee has had to oversee changes to the way that Non-Executive Directors are remunerated and also changes to the composition of the Board.

The Audit, Risk & Compliance Committee have had to oversee many regulatory changes and the increased level of resources attributable to compliance is strongly linked to the growth of the business.

Commitment to Climate Action

The Company continues to monitor its carbon usage. Carbon credits have been purchased by the Manager to offset any material carbon emissions made by the Company, for electricity usage and travel for the purposes of stock research conducted by the investment analysts.

Conclusion

The Managing Director's Letter to Shareholders also addresses the key challenges being faced by the business and the funds management industry and discusses key growth opportunities.

Michael Cole
Chairman

20 August 2015

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

As a shareholder, you will appreciate that the principal driver of our business is the level of funds under management (FUM). One of the key determinants of this is our investment performance.

Investment Performance

The performance of our Funds over the last three years has been strong. In the flagship Platinum International Fund, the 24.7% compound pa return represents a near doubling of an investors' position from three years ago (pre-tax and including distributions reinvested). Throughout this time, the funds have continued to run risk reduction strategies via cash and short positions.

It is a testing time for fund managers. This is especially the case for our stock-picking style of investment as it does best when there is more dispersion of stock price behaviour. In plain language, the gap between the strongest performing and the weakest performing shares around the world has been much narrower than usual. The magnitude of opportunities for picking winners is consequently lower than it has been in the past. This is not the same as the dispersion of valuations, which has widened considerably as investors have sought refuge in company's presumed to be "safe" while cyclical companies have been eschewed.

The Investment Team

We regard the investment team as the engine room of what we do. We have used earlier letters to explain the reordering of the team into specialist subsets either by industry or geographic segmentation, in the case of Asia. The latter segregation is on account of language but, in fact, the specialist teams cover their industries from a global perspective and hence there is an overlap.

Andrew Clifford, our co-founder and head of investments (CIO), continues to guide the investment team and fine-tune the processes involved. There has been good idea generation and a benefit from the interchange of ideas among the teams and team leaders. Helped by the work of the quant team, we are able to create a dynamic image of those areas that are extravagantly valued and those which reflect neglect, our favoured hunting ground. With the dealing team now spending greater effort to gauge sentiment and other indicators, we are pleased with the overall co-ordination in our quest for the rational allocation of funds, otherwise known as solid stock-picking.

We witnessed a small group of analysts leave during the year. Losing members of the team is always regrettable but it is a characteristic of the industry. We have continued to follow our recruitment cycle and are operating with a full complement.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
CONTINUED

Costs

As you are aware, staff costs are the most significant and variable of our outgoings. In general, the investment team receives base salaries that we believe approximately reflects the industry's pay scale (in this well-remunerated industry) but their individual and group contributions can significantly raise their final income packages towards the top of the pay scale. As noted before, there is some upward drift in the investment staff's salaries on account of seniority and a gradual augmentation of the investment team to ensure adequate research coverage in an expanding universe of world stocks. This is the consequence of globalisation, which is expanding the number and diversity of available investment opportunities. Overall, however, our costs were reasonably well-contained and flat for the period 2014/2015.

Performance allowed us to pay good bonuses yet the profit share pool, which we introduced last year, did not apply. As noted in last years' letter, this payment to members of the investment staff falls due when the total pool of funds we manage outperforms the fund weighted benchmark by 1%, over a rolling three and one year period.

Funds Under Management (FUM)

It has taken Australian investors a long time to heed our calls for more exposure to world stock markets. This reluctance was understandable when the country and currency was still enjoying the flattening glide that characterised the end of the resources boom, but now that our terms of trade are clearly heading downwards and the A$ is weakening, we are surprised by their seeming unwillingness to lay off their exposure and have more investment in assets abroad. Even so, we have seen reasonable flows from private investors, though this was partly offset by some institutional accounts redeeming investments because of a desire to change their asset mix.

FUND UNDER MANAGEMENT ($MN, TO 30 JUNE 2015)

FUND	OPENING BALANCE (1 JULY 2014)	FLOWS	DISTRIBUTION	INVESTMENT PERFORMANCE	CLOSING BALANCE (30 JUNE 2015)
Platinum Trust Funds and Platinum Global Fund	15,861	911	(1,425)	3,770	19,117
MLC Platinum Global Fund	1,079	(187)	–	221	1,113
Management Fee Mandates	2,119	(189)	–	445	2,375
"Relative" Performance Fee Mandates	3,190	(316)	–	671	3,545
"Absolute" Performance Fee Mandates	693	(139)	–	155	709
TOTAL	**22,942**	**80**	**(1,425)**	**5,262**	**26,859**

Source: Platinum

The money we manage for institutional clients has otherwise been steady and underscores the challenge sponsors face when selecting global fund managers. Typically, the sums being allocated are large so they need to find a manager who has the experience and record of managing large amounts of money without it adversely affecting overall returns. The list is remarkably short when looking for those in business for over 15 years and with our returns.

FUM Retention

There are two clear patterns with retail investors. Their timing of entry and exit into managed funds tends to be poor and secondly, even though these managed funds are sold on the basis of long-term records, investors tend to enter and exit their investment within five years of their initial investment. We have calculated that this entry-and-exit pattern results in a return to the client of a full 6% less than a buy-and-hold return would have harvested. Fortunately, our analysis shows that our investors stay with us for about 7-8 years, which is above the industry average. As a consequence they tend to do better than the index.

We are pursuing various avenues to try to modify and improve these patterns: we have changed the regular savings plan to a minimum initial investment of $10,000 combined with a regular monthly or quarterly contribution of at least $200. We are also using the website to try to connect more closely with existing clients and to deliver regular information content.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
CONTINUED

In addition, each quarter we mail out our quarterly report which aims to lucidly communicate our prevailing views and current action within each portfolio. This entails a mail-out of 35,000 reports each quarter. This is in addition to the regular road shows where we present in the major Australian cities, separately to clients and investment advisors. We are experiencing rising engagement by those using the web for information and insights. The "Journal" page is proving popular where readers can find articles about investment themes or stocks that we favour.

Douglas Isles, Platinum's investment specialist, has been hugely energetic travelling the country presenting and talking with advisors or their clients. Unlike many in his role, Douglas has been an analyst and hence presents with the knowledge of a practitioner and conveys what really matters rather than simply pushing product.

Julian McCormack, a former analyst also with Platinum, has joined Douglas with the task of building relationships in the New Zealand market – where investors generally have a far higher predilection for investing abroad than do most Australians. Julian is also building bridges with accounting firms who have adopted the role of providing clients with wealth planning advice.

To play a small part in raising the professionalism within the financial advisory industry, Platinum Asset Management and The Neilson Foundation are equally funding 20 bursaries collectively at five Australian universities[1]. The choice of candidates is in the hands of each University with the proviso that the bursaries goes to students who are majoring in financial planning. Platinum has further committed to giving two candidates a month's work experience on an annual basis. We welcomed our first two interns this year and were delighted by their performance and enthusiasm. The surprise was how different their experience was to that which they had envisaged as under-graduate students. Delightfully, it was all positive.

Under the able direction of the Assistant to the Treasurer, the Honourable Josh Frydenberg MP, the thorny issues around the tax legislation governing Australia-based fund managers offering products to foreign investors has been largely resolved as part of the Investment Manager Regime (IMR).

1 The 20 annual scholarships, valued at $15,000 each, are spread over the University of Canberra, Curtin University, Griffith University, La Trobe University and Deakin University.

We can now proceed to offer **UCITS** (Undertakings for Collective Investments in Transferable Securities) to investors based in Europe or Asia without fear of intervention by the Australian Tax Office. We have consequently reapplied to launch Irish registered UCITS to offer three funds, namely, a Global fund, Asia ex Japan fund and a Japan fund. The offer documents are close to being registered and we shall be promoting these funds from September with initial seeding by Platinum Investment Management Limited.

Charles Brooks, our investment specialist for professional investors, will be spending more time abroad promoting these products. We continue to seek out large mandates where there is a fit of needs. Some baulk at fees as a matter of principle even though the performance is always calculated after all fees. As noted in earlier letters, to accommodate these concerns we offer institutions a low base fee and participate in superior performance by charging a fee that is levied upon the outperformance relative to the benchmark. This rations the number of prospects but equally ensures that we gradually build relationships with institutions who appreciate the scarcity of index agnostic managers who have scale and a long history of delivering superior and differentiated performance characteristics.

The **mFund** – the instrument that allows investors to buy or sell units in the Platinum Global Fund through their stockbrokers on the ASX – began trading in September last year. The volumes of trade for our product and that of other equity funds have been generally acknowledged as disappointing. The ASX has failed to excite the interest of some large online brokers and this is retarding the take-up of this alternative distribution channel. To date we have received applications of $16 million with only one withdrawal transaction. The Platinum Global Fund stands at $20 million fund size at year end.

Platinum has been actively marketing a new listed investment company, **Platinum Asia Investments Limited (ASX: PAI)** and in just over a week since the offer opened, PAI has received commitments in excess of the minimum capital raising target of $150 million. The offer is due to close on 7 September 2015 and PAI is expected to list on the ASX on 21 September 2015. This entity, which will be run alongside the Platinum Asia Fund, is being launched to tap into those investors who prefer the attributes of a listed entity above those of a managed fund. The $550 billion pool of SMSF is the primary target. We continue to encourage investors to reconsider their exposure to the Australian market and the Australian dollar, in the face of a fast changing world of opportunity. PAI will sit alongside our other listed LIC, Platinum Capital Limited (ASX: PMC).

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS
CONTINUED

Outlook

We are pleased with the development of the investment team and the breadth of our capability. We have made a greater commitment to embrace the planning community and continue to progressively develop relationships with professional investors both here and abroad.

We continue to find attractive investment opportunities in markets around the world which bodes well for our future.

Kerr Neilson
Managing Director

FINANCIAL STATEMENTS 2015

PLATINUM ASSET MANAGEMENT LIMITED

General information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 20 August 2015. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 17 August 2015.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	5,249
1,001 to 5,000	12,928
5,001 to 10,000	2,985
10,001 to 100,000	1,700
100,001 and over	56
	22,918
Holding less than a marketable parcel (less than $500)	174

Equity security holders

Twenty largest quoted equity security holders

The names of the 20 largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Platinum Investment Management Limited (nominee)	216,210,772	36.85
J Neilson	126,250,000	21.52
HSBC Custody Nominees (Australia) Limited	37,576,337	6.41
JP Morgan Nominees Australia Limited	35,076,688	5.98
National Nominees Limited	16,645,583	2.84
Citicorp Nominees Pty Limited	13,993,271	2.39
Jilliby Pty Limited	7,500,000	1.28
BNP Paribas Nominees Pty Limited	5,810,321	0.99
J Clifford	5,000,000	0.85
Charmfair Pty Limited	4,240,694	0.72
RBC Investor Services Australia Nominee Pty Limited	3,583,932	0.61
Charmfair Pty Limited	3,472,269	0.59
Xetrov Pty Limited	2,000,000	0.34
SBN Nominees Pty Limited	1,540,500	0.26
Citicorp Nominees Pty Limited	1,383,716	0.24
Navigator Australia Limited	960,311	0.16
AMP Life Limited	715,638	0.12
BNP Paribas Nominees Pty Limited	611,886	0.11
Jilliby Pty Limited	603,000	0.10
Netherfield Nominees Pty Limited	600,000	0.10
	483,774,918	82.46

Unquoted equity securities

There are no unquoted equity securities.

SHAREHOLDER INFORMATION
CONTINUED

Substantial holders
Substantial holders in the Company are set out below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
J Neilson, K Neilson	312,074,841	53.24
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.85

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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

Financial Calendar

Ordinary shares trade ex-dividend	27 August 2015
Record (books close) date for dividend	31 August 2015
Dividend paid	22 September 2015
Annual General Meeting	5 November 2015

These dates are indicative and may be changed.

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

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the "consolidated entity" or "Group") consisting of Platinum Asset Management Limited (referred to hereafter as the "Company" or "parent entity") and the entities it controlled at the end of, or during, the year ended 30 June 2015.

Directors

The following persons were Directors of Platinum Asset Management Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Stephen Menzies	Non-Executive Director (appointed 11 March 2015)
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Andrew Stannard	Executive Director and Chief Financial Officer (appointed 10 August 2015)

Philip Howard was an Executive Director until his resignation on 25 May 2015.

Company Secretary

Janna Vynokur was appointed Company Secretary on 25 May 2015. Ms Vynokur holds a Bachelor of Commerce and a Bachelor of Laws degrees. Previously, Ms Vynokur worked for Allens Linklaters, where she held the position of Managing Associate. Ms Vynokur has 14 years of legal experience with expertise in funds management, financial services regulation and corporate governance.

Philip Howard was Company Secretary until 25 May 2015.

Other Board Appointed Officers of the Company

Marcia Venegas was appointed as Chief Compliance Officer on 16 March 2015.
Mark Aggarwal was appointed as Acting Chief Financial Officer between 25 May 2015 and 10 August 2015.

Principal Activities

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

DIRECTORS' REPORT
CONTINUED

Operating and Financial Review

The principal driver of the business is the level of funds under management (FUM). One of the key determinants of this is investment performance. Our underlying Funds have all delivered solid absolute returns over the past year and the majority of our Funds have exceeded the returns of their respective benchmark over the past six months to 30 June 2015.

Funds Under Management ("FUM") increased from $22.9 billion at 30 June 2014 to $26.9 billion at 30 June 2015. As a result, management fees increased by $50.3 million or 18.5% to $322.1 million and the rise in management fees, together with the increased gains made on holdings of the Company's US Dollar cash balance (up $16.6 million), offset the decrease in performance fees from $27.4 million in the previous year to $2.3 million for the year to 30 June 2015. Revenue increased by 12.7% to $360.4 million and has benefitted from the falling Australian Dollar.

Costs have remained relatively constant and are closely monitored. The increase in management fee revenue together with the containment in costs have combined to produce a profit before income tax expense of $301,550,000 (2014: $261,045,000), which represents an increase of 15.5%. The profit after tax for the year was $213,499,000 (2014: $189,867,000), which represents an increase of 12.4%.

Platinum is increasing the range of products on offer to assist investors who wish to achieve investment diversification by accessing global share market opportunities through a world class investment manager. In September last year, Platinum launched an mFund product, Platinum Global Fund, on the ASX that provides investors with the ability to invest directly in a long-only global fund, that will deliver long-term wealth creation.

Platinum has commenced an Initial Public Offering (IPO) for Platinum Asia Investments Limited (ASX code: PAI), which is an Asian Listed Investment Company (LIC), to take advantage of the long-term growth prospects in one of the fastest growing regions of the world. Platinum Investment Management Limited has been appointed as the Investment Manager. The Platinum Group has been extensively involved in the marketing of this new LIC and intends to be a long-term co-investor and has committed to an investment of 25% of the total funds raised up to a cap of $50 million.

The Australian Government recently announced changes to the taxation rules for foreign investors that use Australian fund managers, which should eliminate the tax uncertainty that had prevailed in the past. During the year, Platinum extensively lobbied Government officials to ensure our concerns were dealt with. As a result, we have sufficient comfort to launch a new offshore investment vehicle, Platinum World Portfolios Plc., incorporated in the Republic of Ireland. This entity will shortly commence trading. The Company will seed the offshore entity with an investment of US$25 million across three sub-funds (International, Asia and Japan). We intend to market this new Fund actively in the global sphere, highlighting our strong medium and longer term record of outperformance, that sets us apart from the majority of fund managers in the industry. Accordingly, the Platinum Group decided to wind down its previous offshore investment fund, Platinum World Funds Plc.

The consolidated entity is in a strong financial position, with a strong balance sheet. The key drivers of future growth of the business are investment performance and capital flows, which have a significant influence on our average FUM. Capital flows will benefit through the development of new products, the winning of new institutional mandates, the increasing trend for Australian investors to increase their exposure to world stock markets, strengthening our relationship with the professional investor community and accessing the growth of the self-managed superannuation fund (SMSF) sector.

Further information in relation to the Company can be found in the Chairman's Report and Managing Director's Letter to Shareholders.

Dividends

Since the end of the financial year, the Directors have declared a 20 cents per share ($117,335,780) fully-franked ordinary dividend, with a record date of 31 August 2015 and payable to shareholders on 22 September 2015. A fully-franked ordinary dividend of 17 cents per share ($99,221,000) was paid on 18 March 2015. A fully-franked ordinary dividend of 20 cents per share ($116,067,000) was paid on 23 September 2014.

In addition, a fully-franked special dividend of 10 cents per share ($58,365,000) was paid on 18 March 2015 to return some of the Company's surplus cash back to shareholders.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters Subsequent to the End of the Financial Year

Apart from the dividend declared, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

DIRECTORS' REPORT
CONTINUED

Likely Developments and Expected Results of Operations
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 consolidated entity or the results of its operations in subsequent financial periods.

Environmental Regulation
The consolidated entity is not subject to any significant environmental regulation under Commonwealth, State or Territory law.

Information on Directors
Michael Cole BECON, MECON, FFIN
Independent Non-Executive Director, Chairman and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 10 April 2007. (Age 67)

Mr Cole has over 37 years of experience in the investment banking and funds management industry. Mr Cole 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.

Bruce Coleman BSC, BCOM, CA, FFIN
Independent Non-Executive Director, Chair of the Nomination & Remuneration Committee and member of the Audit, Risk & Compliance Committee since 10 April 2007. (Age 65)

Mr Coleman has worked in the finance and investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. He has held various directorships within MLC Limited, Lend Lease and the National Australia Banking group. Mr Coleman is Chairman and Director of Platinum Capital Limited, Chairman of Resolution Capital Limited, and on 24 June 2015, Mr Coleman was appointed Chairman and Director of Platinum Asia Investments Limited.

Margaret Towers CA, GAICD
Independent Non-Executive Director, Chair of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee since 10 April 2007. (Age 57)

Ms Towers is a Chartered Accountant with over 33 years of experience in financial markets. She was formerly an Executive Vice President at Bankers Trust Australia and worked at Price Waterhouse. Ms Towers acts as an independent consultant and compliance committee member to Australian Financial Institutions. Ms Towers is a Non-Executive Director of IMB Limited.

Stephen Menzies BECON, LLB, LLM
Independent Non-Executive Director, member of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee since 11 March 2015. (Age 59)

Mr Menzies is currently a Director of Century Australia Investments Limited and Chairman of the Centre for Quantum Computation & Communication Technology. Mr Menzies retired as a partner at Ashurst law firm last year and until his retirement was consistently ranked as one of Australia's leading corporate lawyers. As Head of China Practice for Ashurst, Mr Menzies oversaw the Shanghai and Beijing offices of that firm. As a senior lawyer, he managed legal work of significant projects in capital markets and mergers including some of the largest transactions in Australia. Previously, Mr Menzies was National Director for Enforcement at the Australian Securities Commission and has a long history in the funds management sector. On 4 July 2015, Mr Menzies was appointed a Director of Platinum World Portfolios Plc.

Kerr Neilson BCOM, ASIP
Managing Director since 12 July 1993. (Age 65)

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 in stockbroking.

Andrew Clifford BCOM (HONS)
Director and Chief Investment Officer since 8 May 2013. (Age 49)

Mr Clifford joined Platinum as a co-founding member in 1994 in the capacity of Deputy Chief Investment Officer. He is a Director of Platinum Investment Management Limited and Platinum Capital Limited. Previously he was a Vice President at Bankers Trust Australia covering Asian equities and managing the BT Select Market Trust – Pacific Basin Fund. Mr Clifford is co-manager of Platinum International Fund.

Elizabeth Norman BA, GRADUATE DIPLOMA IN FINANCIAL PLANNING
Director of Investor Services and Communications since 8 May 2013. (Age 47)

Ms Norman joined Platinum in February 1994 in a role of Investor Services and Communications Manager. Previously she worked at Bankers Trust Australia in product development and within the retail funds management team. Ms Norman's role as a Director of Investor Services and Communications reflects the widening of Platinum's client base and the consolidated entity's commitment to supporting retail and institutional clients with dedicated investment specialists.

DIRECTORS' REPORT
CONTINUED

Andrew Stannard BMS (HONS), GRADUATE DIPLOMA IN APPLIED FINANCE AND INVESTMENT, CA
Director and Chief Financial Officer since 10 August 2015. (Age 48)

Mr Stannard joined Platinum from AllianceBernstein where he held the position of Chief Financial Officer for the Asia-Pacific region. Mr Stannard has 25 years of finance experience with expertise in audit, financial control, operations, funds management, financial services regulation and corporate governance.

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and of each Board committee held during the year ended 30 June 2015, and the number of meetings attended by each Director were:

	BOARD		NOMINATION & REMUNERATION COMMITTEE		AUDIT, RISK & COMPLIANCE COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD
Michael Cole	4	4	3	3	4	4
Bruce Coleman	4	4	3	3	4	4
Margaret Towers	4	4	3	3	4	4
Stephen Menzies (from 11 March 2015)	1	1	1	1	1	1
Kerr Neilson	4	4	–	–	–	–
Andrew Clifford	4	4	–	–	–	–
Elizabeth Norman	4	4	–	–	–	–
Philip Howard (until 25 May 2015)	3	3	–	–	–	–

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Indemnity and Insurance of Officers

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

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 19 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 19 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Officers of the Company who are Former Audit Partners of PricewaterhouseCoopers

There are no officers of the Company who are former audit partners of PricewaterhouseCoopers.

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to "rounding-off". Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 39.

Auditor

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

DIRECTORS' REPORT
CONTINUED

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Michael Cole
Chairman

Kerr Neilson
Director

Sydney, 20 August 2015

Remuneration Report (Audited)

Introduction

The Company's Directors present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and consolidated entity for the year ended 30 June 2015. The Remuneration Report forms part of the Directors' Report.

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

Summary of remuneration outcomes for 2015

- The Managing Director waived his ability to receive a bonus in 2015 and this was ratified by the Nomination & Remuneration Committee;
- Investment management remains the core function of the business and, as a result, generating investment returns for clients is a key driver to gain and retain client monies over the medium term. Aggregate bonuses paid to the Investment Team are linked to investment performance of all client funds (relative to appropriate benchmarks) over the preceding 1 and 3 year periods. As investment returns in the current period were, on average, both below benchmarks and below the prior year outcomes, Investment Team bonuses have, in general, not increased despite an increase in the Platinum Group's profit and FUM;
- Profit Share Plan (PSP) incentive payments are also directly linked to the investment performance of all client funds (relative to appropriate benchmarks) over the preceding 1 and 3 year periods. As investment returns were, on average, below benchmarks there were no payments made under the PSP;
- The bonus paid to Andrew Clifford is related to his role as Platinum's Chief Investment Officer and Co-Manager of Platinum International Fund. The reduced bonus paid to Andrew Clifford in the current year is as a result of lower investment returns (relative to appropriate benchmarks) compared with the prior period;
- The bonus paid to Elizabeth Norman reflected her role as Director of Investor Services and Communications and rewarded her strong leadership in developing and promoting Platinum's products and investment approach to the investment advisor and planning community. This increased focus, in the current year, on developing new products and communicating the features of our products and investment opportunities has resulted in higher net inflows into the Platinum Group's Funds; and
- The Non-Executive Director remuneration structure was modified during the year in line with other ASX 200 companies. The specific responsibilities that each Non-Executive Director has are identified and remuneration is then allocated to each of those responsibilities. This reallocation occurred without the need to increase the overall amount paid to the individual Non-Executive Directors.

DIRECTORS' REPORT
CONTINUED

Key Management Personnel ("KMP")
For the purposes of this report, KMP of the consolidated entity in office at any time during the financial year were:

NAME	POSITION
Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Stephen Menzies	Non-Executive Director (since 11 March 2015)
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer (CIO)
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Philip Howard	Executive Director and Company Secretary (until 25 May 2015)

There were no employees that held a KMP position within the Company or consolidated entity, other than those disclosed above.

Shareholders' Approval of the 2014 (prior year) Remuneration Report
A 25% or higher "no" vote on the Remuneration Report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed. At the last AGM, the Company's Remuneration Report was carried on a poll and received a vote in favour of 90.59%. Platinum takes the opportunity to fully explain the basis and structure of the remuneration paid to KMP.

Guiding Principles of KMP and Staff Remuneration
The business of Platinum is to manage clients' money with the goal of providing superior investment returns over the medium to long-term. Platinum's position is simple: if Platinum continues to responsibly and successfully manage the money of its clients then, over time, the Funds Under Management (FUM) of the firm will increase, and so will the profits of the Platinum Group.

As at 30 June 2015, the flagship Platinum International Fund had achieved an average compound annual return of 13.4% since its inception in 1995, compared to 6.4% for the MSCI All Country World Net Index. The majority of our Platinum Trust Funds have also performed strongly over the medium to long-term. These excellent absolute and relative investment returns have resulted in FUM rising over time which, in turn, has generated higher profits, higher earnings per share and increased dividends to shareholders.

In order to achieve these returns for investors, Platinum has built and developed a team of highly skilled investment professionals. As previously noted, the key variable in determining investment team remuneration is investment returns. Consideration is given to overall returns earned by all clients, as well as the contribution made by individual members of the investment team as a result of their specific investment ideas. The performance of other essential members of the Platinum team, such as client services and administrative functions, are assessed against pre-determined operational performance indicators that are relevant to each employee.

Some firms prefer to focus on simpler performance metrics such as Total Shareholder Return (TSR) as a basis for designing KMP and employee remuneration structures. TSR measures share price appreciation or depreciation plus dividend reinvestment between two points in time. Whilst, over long periods of time, TSR will usually reflect the underlying performance of a company's business; it is Platinum's view that there are a number of issues in using TSR as a variable in employee remuneration. Shorter term variables, such as the macroeconomic environment or interest rates, are factors outside of the control of employees, but can overwhelm underlying developments in the business, and determine a company's share price. The result is that employees may be either unduly rewarded or punished by variables outside of their control. The use of TSR as an incentive, in our view, may encourage a focus on short-term outcomes such as current year earnings, or short-term investment returns, potentially at the expense of longer term business outcomes.

In conclusion, Platinum's position is that if we provide good investment returns to our clients, along with a high level of customer service, FUM and profits will grow, and as a result, shareholders will benefit as a result of an appreciating business value. Accordingly, Platinum's Remuneration Policy aims to reward staff in line with the contribution that they have made to delivering these objectives and outcomes.

Structure of Remuneration for Directors and all Platinum staff

Fixed remuneration consists of salary and compulsory superannuation contributions. Salaries approximate market rates and take into account the contribution, skill and experience of each employee.

Variable remuneration consists of performance bonuses and profit share amounts. Bonuses were discretionary and were paid after assessing individual performance against a range of qualitative and quantitative factors specific to each employee. Bonuses took the form of an annual cash payment and were designed to reward superior performance.

DIRECTORS' REPORT
CONTINUED

The Platinum Group has established three Short-Term Incentive Plans (STIP), as the basis for rewarding staff. These are discussed below.

Short-Term Incentive Plans
Specific participation in the three Short-Term Incentive Plans was determined by whether the employee is a member of the Investment Team or otherwise. The plans are detailed below.

Investment Team Plan
A remuneration framework for investment team bonuses has been ratified by the Nomination & Remuneration Committee. Under this framework, the bonus pool was determined as a percentage of the aggregate base salary of the investment team. The percentage level was related to the average of 1 year and 3 year outperformance of all Funds Under Management. For each 1% increase in this average outperformance, the bonus pool is increased by 20% and is then capped when average outperformance is 5% or more.

The bonus pool is then allocated across members of the Investment Team based on performance assessments that are based on both quantitative and qualitative measures. In a period where there is aggregate underperformance of client funds, annual bonuses for investment team members are then determined by an individual assessment of each employee's contribution to the investment team during the period. Quantitative measures used to assess individual performance include the performance of any portfolios under the management of an individual and the performance of individual investment ideas that have been proposed. Investment performance is usually assessed over a 1 year and 3 year timeframe and is relative to an appropriate benchmark.

As investment returns in the current period were on average below benchmarks and below the prior year outcomes, Investment Team bonuses have, in general, not increased despite an increase in profit and FUM.

Profit Share Plan (PSP)
The Nomination & Remuneration Committee ratified the PSP last year. The PSP was designed to reward key members of the Investment team for helping in the development of Platinum's business through strong investment performance (relative to benchmarks). Individual members of the Investment Team were issued notional units in the profit share plan. The notional units have no capital value and cannot be sold or transferred to a third party. Notional units are adjusted each year based upon the assessment of each staff member's long-term contribution potential to the future development of the Group. Each year the profit share percentage is determined based upon the weighted average 1 year and 3 year outperformance of all funds under management. For example, if the average of the one and three year rolling performance of our Funds exceeds the weighted benchmark

by 2.5%, then 1.5% of the Company's fee-based net profit before tax is made available to this pool.

There is no profit share until weighted average 1 year and 3 year outperformance is greater than 1%, inclusive of prior year underperformance carry forward. The profit share figure is limited to 5% of profit before tax, though the Nomination & Remuneration Committee may elect to carry this over to future periods if investment returns indicate a profit share in excess of the 5% level. There were no payments made under the Profit Share Plan in the current year.

General Employee Plan
For all other employees, performance was assessed against pre-determined operational performance indicators relevant to each employee as assessed by the Directors of the Platinum Group and ratified by the Nomination & Remuneration Committee. These performance indicators took into account the responsibilities, skill and experience of each employee and their contribution during the year, and emphasised the fact that the business is run extremely efficiently with a total number of non-investment employees of 53, despite total FUM at 30 June 2015 being $26.9 billion.

Impact of these Plans on the Executive Directors
The incentive payment made to Andrew Clifford paid in the current year was determined according to the Investment Team Plan. Andrew Clifford's participation in the Investment Team Plan is based on his role as Platinum's Chief Investment Officer and Co-Manager of Platinum International Fund. Andrew Clifford is also eligible to participate in the PSP as he is a senior member of the Investment Team. However, in the current year no PSP allocation was made to him or any other Platinum employees.

Andrew Clifford's bonus decreased in the current year because (i) there were no bonus payments made under the Profit Share Plan and (ii) lower investment returns (relative to appropriate benchmarks) were achieved across all client funds, compared with the prior period.

The bonus of Elizabeth Norman was determined according to the General Employee Plan, as Elizabeth is not an Investment Analyst.

Elizabeth's Norman's bonus reflects her role as Director of Investor Services and Communications and rewarded her strong leadership in developing and supervising a team of investment specialists that travel around Australia to regularly meet with advisers and planners. This greater investment in distribution will improve Platinum's ability to gain and retain clients.

DIRECTORS' REPORT
CONTINUED

During the year, Elizabeth led two new product developments. The first was the launch of our new mFund product on the ASX in September last year. The product, known as Platinum Global Fund, invests in long-only global stocks and is available for investors to purchase directly through their broker. The second was the launch of our new Asian Listed Investment Company (LIC), called Platinum Asia Investments Limited (ASX code: PAI) that is expected to list on the ASX on 21 September 2015. The development of these products along with the development of the distribution team has resulted in higher net inflows of funds to the business during the period.

Philip Howard resigned on 25 May 2015 as Platinum's Finance Director, and consequently did not receive a bonus in 2014/15.

Kerr Neilson continued to waive his ability to receive a bonus. This has been ratified by the Nomination & Remuneration Committee.

Long-Term Incentive Plans
The Platinum Group has two long-term incentive plans in place, which are discussed below. There was no allocation made under any of these plans during the year.

Options and Performance Rights Plan (OPRP)
In 2007, the Platinum Group established an Options and Performance Rights Plan (OPRP). Options were only granted to certain highly skilled staff based on their specific and unique skill set within the funds management industry. Performance rights were also granted to staff members. The purpose of the OPRP was to provide these staff members with an incentive to remain at Platinum for the duration of the vesting period of four years, by requiring continuous employment from the date the options and performance rights were granted.

No further grants of options and/or performance rights have been made since 2009.

All options granted in 2007 and 2009 had a four year vesting period, and once vested, had a two year exercise period. All options (net of forfeitures) that were granted in 2007 and 2009 have now been exercised.

Three employees that were KMP during the year were granted options in 2009 (Andrew Clifford, Elizabeth Norman and Philip Howard). The table on page 34 shows the options exercised over the vesting period by each Director.

The strike price for the 2009 grant was $4.50 per option. The consolidated entity did not provide loans to any KMP or staff member to exercise their options.

In addition, no KMP had margin loans secured over the Company's shares.

KMP did not receive and had never received any dividends on unvested or unexercised options.

No performance rights had been granted since 2007 and no options have been granted since 2009. No KMP had ever received performance rights.

Fund Appreciation Rights Plan (FARP)

The Group established a Fund Appreciation Rights Plan (FARP) on 1 April 2009 to assist with the retention and motivation of the Group's investment analysts. Under the FARP, short-term incentives may be converted to notional investments in Platinum Trust Funds which is intended to align the interest of the analyst with the shareholder in deriving greater value over time.

There were no FARs issued in the 2015 financial year.

Andrew Clifford was eligible to participate in the FARP, but had never had any Fund Appreciation Rights granted to him.

DIRECTORS' REPORT
CONTINUED

Details of Remuneration of Executive Directors

The table below presents the remuneration provided by the consolidated entity to the Executive Directors of the consolidated entity, in accordance with accounting standards.

	CASH SALARY $	OTHER[1] $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES[2] $	LONG-TERM INCENTIVES[3] $	TOTAL $
2015						
Kerr Neilson[4]	**450,000**	**12,590**	**18,784**	**–**	**–**	**481,374**
Andrew Clifford	**425,000**	**(11,793)**	**18,784**	**425,000**	**–**	**856,991**
Elizabeth Norman	**400,000**	**14,004**	**18,784**	**700,000**	**–**	**1,132,788**
Philip Howard[5] (until 25 May 2015)	**358,974**	**(24,706)**	**16,858**	**–**	**–**	**351,126**
	1,633,974	**(9,905)**	**73,210**	**1,125,000**	**–**	**2,822,279**
2014						
Kerr Neilson[4]	450,000	6,628	17,775	–	–	474,403
Andrew Clifford	425,000	8,099	17,775	1,604,650	–	2,055,524
Elizabeth Norman	400,000	1,232	17,775	650,000	–	1,069,007
Philip Howard	400,000	350	17,775	300,000	–	718,125
	1,6750,000	16,309	71,100	2,554,650	–	4,317,059

(1) Represents the increase/(decrease) in the accounting provision for annual and long service leave. These amounts were not received by the Executive Directors and represent provisions made in the consolidated entity's Statement of Financial Position.

(2) See the Short-Term Incentive Plan section above for further details. The figures contained in the table represent cash bonuses and/or Profit Share Plan payments (in the case of Andrew Clifford for the prior year). There was no Profit Share Plan payment made to any employee in the current year.

(3) There were no long-term incentives (options or fund appreciation rights) granted in the current or prior year.

(4) The Managing Director, Kerr Neilson, waived his right to receive a bonus and this has been ratified by the Nomination & Remuneration Committee.

(5) The remuneration for Philip Howard covers the period from 1 July 2014 to the date of his resignation on 25 May 2015, at which point he ceased to be a KMP.

Components of Remuneration

The table below illustrates the relative proportions of fixed and variable remuneration as a percentage of total remuneration extrapolated from the "Details of remuneration of Executive Directors" table.

	FIXED REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION(1)	VARIABLE REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION(2)
2015		
Kerr Neilson	**100%**	**0%**
Andrew Clifford	**50%**	**50%**
Elizabeth Norman	**38%**	**62%**
Philip Howard	**100%**	**0%**
2014		
Kerr Neilson	100%	0%
Andrew Clifford	22%	78%
Elizabeth Norman	39%	61%
Philip Howard	58%	42%

(1) Fixed remuneration refers to salary, superannuation and provisions or payments made for annual and long service leave.
(2) Variable remuneration refers to short- and long-term incentive payments. Only short-term incentive payments were made in the current or prior year.

Options and Performance Rights Plan (OPRP)

The table on the following page provide details of options that were granted to the Directors in 2009 and details about any options that have vested and have been exercised.

Grant date	17 June 2009
Vesting date	17 June 2013
Expiry date	17 June 2015
Exercise price	$4.50
Fair value per option at grant date	$1.14

DIRECTORS' REPORT
CONTINUED

	NUMBER OF OPTIONS GRANTED	FAIR VALUE AT GRANT DATE[1] ($)	NUMBER OF OPTIONS VESTED AND UNEXERCISED	NUMBER OF OPTIONS EXERCISED OVER THE 2 YEAR VESTING PERIOD	CURRENT YEAR ACCOUNTING EXPENSE ($)
Kerr Neilson	–	–	–	–	–
Andrew Clifford	3,844,350	4,367,181	–	3,844,350	–
Elizabeth Norman	1,071,123	1,216,796	–	1,071,123	–
Philip Howard	856,898	973,436	–	856,898	–
Vested and exercised				5,772,371	
Vested and unexercised			–	Nil	
Outstanding (unvested)			–	Nil	

(1) Independently determined using an appropriate option pricing model, in accordance with AASB 2: Share-Based Payments.

By 17 June 2015, all options vested and were fully exercised.

No options or Fund Appreciation Rights were granted to any of the Directors during the year, or since balance date.

Remuneration of Non-Executive Directors

Remuneration Policy

The Company's remuneration policy for Non-Executive Directors is designed to ensure that the Company can attract and retain suitably-qualified and experienced directors.

It is the policy of the Board to remunerate at market rates. Non-Executive Directors received a fixed fee and mandatory superannuation payments. Non-Executive Directors do not receive bonuses and are not eligible to participate in any equity-based incentive plans. The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external advisor.

The Executive Directors determined the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at a general meeting in April 2007, was $2 million per annum (including superannuation).

Change in Remuneration Structure

From 1 April 2015, the Non-Executive Director remuneration structure changed. Previously, Non-Executive Directors were remunerated via a single compensation amount, which did not specifically align with the various roles and responsibilities that the Non-Executive

Directors performed in relation to their work-load and attendance at the Board and Board Committees.

The Nomination & Remuneration Committee recommended that the Non-Executive Director remuneration structure should be better aligned with other ASX 200 companies, where the specific role is identified and the remuneration component is allocated to that role. This change occurred from 1 April 2015, without an increase in the overall amount paid to the individual Non-Executive Directors.

The following table displays the current Non-Executive Directors and their key roles:

NON-EXECUTIVE DIRECTOR	MICHAEL COLE	MARGARET TOWERS	BRUCE COLEMAN	STEPHEN MENZIES
Board	Chair	Member	Member	Member
Audit, Risk and Compliance Committee	Member	Chair	Member	Member
Nomination and Remuneration Committee	Member	Member	Chair	Member

The table below shows the reallocation of the remuneration paid, without increasing the overall amount paid to the individual Non-Executive Directors.

NON-EXECUTIVE DIRECTOR	MICHAEL COLE	MARGARET TOWERS	BRUCE COLEMAN	STEPHEN MENZIES
Board(1)	$170,000	$130,000	$130,000	$130,000
Audit, Risk and Compliance Committee	$15,000	$30,000	$15,000	$15,000
Nomination and Remuneration Committee	$15,000	$15,000	$30,000	$15,000
Total	**$200,000**	**$175,000**	**$175,000**	**$160,000**

(1) All Non-Executive Directors are paid $130,000 as a Director, with the Chairman receiving a supplement of $40,000 for his additional responsibilities.

The new structure better aligns the remuneration paid to each Non-Executive Director to their responsibilities and roles.

DIRECTORS' REPORT
CONTINUED

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

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

Remuneration of Non-Executive Directors

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

	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
2015					
Michael Cole	**200,000**	**18,784**	**–**	**–**	**218,784**
Margaret Towers	**175,000**	**16,625**	**–**	**–**	**191,625**
Bruce Coleman	**175,000**	**16,625**	**–**	**–**	**191,625**
Stephen Menzies (appointed 11 March 2015)[1]	**49,026**	**4,657**	**–**	**–**	**53,683**
	599,026	**56,691**	**–**	**–**	**655,717**
2014					
Michael Cole	200,000	17,775	–	–	217,775
Margaret Towers	175,000	16,188	–	–	191,188
Bruce Coleman	175,000	16,188	–	–	191,188
	550,000	50,151	–	–	600,151

(1) The remuneration for Stephen Menzies covers the period from the date of his appointment to 30 June 2015.

The key aspects of the KMP contracts are outlined below:

- Remuneration and other terms of employment for Non-Executive Directors are formalised in letters of appointment. The appointment term for each Director, except for the Managing Director, is three years.
- All contracts (both Executive and Non-Executive) include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.

- The tenure of all Directors, except for the Managing Director, is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are entitled to receive their statutory leave entitlements and superannuation benefits. In relation to incentive plans, upon termination, where an Executive resigns, short-term incentives are only paid if the Executive is employed at the date of payment. The Board retains discretion to make pro-rata short-term incentive payments in special circumstances, such as retirement.
- All Executive Directors can terminate their appointment by providing three months' notice.
- Non-Executive Directors may resign by written notice to the Chairman and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

Link between performance and remuneration paid by the consolidated entity

	2015	2014	2013	2012	2011
Revenue ($'000)	**360,422**	319,796	232,152	226,727	264,619
Expenses ($'000)	**58,872**	58,751	48,983	47,279	50,863
Operating profit after tax ($'000)	**213,499**	189,867	129,112	126,378	150,059
Basic earnings per share (cents per share)	**36.66**	32.79	22.92	22.51	26.73
Total dividends (cents per share)	**47**	34	22	21	25
Total aggregate fixed remuneration paid ($)(1)	**2,362,901**	2,346,251	1,832,625	1,794,650	1,845,820
Total aggregate variable remuneration paid ($)(2)	**1,125,000**	2,554,650	852,500	414,000	434,500

(1) Total aggregate fixed remuneration paid represents salaries and superannuation. The remuneration figure is higher in 2015 and 2014 because two new Directors were appointed in May 2013 and therefore the 2015 and 2014 figures include the impact of a full year of remuneration.

(2) Total aggregate variable remuneration paid represents short-term incentive bonuses. The variable remuneration figure was higher in 2014 primarily because a Profit Share Plan (PSP) incentive allocation was made to Andrew Clifford and Philip Howard received a bonus. In 2015, the bonus paid to Andrew Clifford under the Investment Analyst Plan was reduced and there was no PSP incentive allocation made to Andrew Clifford. In addition, there was no bonus paid to Philip Howard.

DIRECTORS' REPORT
CONTINUED

Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
Michael Cole	200,000	–	–	200,000
Bruce Coleman	100,000	–	(75,000)	25,000
Margaret Towers	20,000	–	–	20,000
Stephen Menzies	30,000	–	–	30,000
Kerr Neilson	322,074,841	–	(10,000,000)	312,074,841
Andrew Clifford	32,831,449	3,844,350	(3,844,350)	32,831,449
Elizabeth Norman	766,748	991,123	(991,123)	766,748

Directors' interests in contracts

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

AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Asset Management Limited and its controlled entities for the year ended 30 June 2015, 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 the entities it controlled during the period.

S J Smith
Partner
PricewaterhouseCoopers

Sydney, 20 August 2015

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	CONSOLIDATED 2015 $'000	2014 $'000
Revenue			
Management fees		**322,124**	271,834
Performance fees		**2,329**	27,435
Administration fees		**16,441**	13,309
		340,894	312,578
Other income			
Interest		**7,093**	9,480
Dividends		**211**	676
Net (losses) on financial assets at fair value through profit or loss		**(3,829)**	(3,300)
Net gains/(losses) on forward currency contracts		**(856)**	15
Net foreign exchange gains on overseas bank accounts		**16,898**	343
Distributions		**11**	4
Total revenue and other income		**360,422**	319,796
Expenses			
Staff		**(27,900)**	(31,096)
Custody. administration, trustee and unit registry		**(16,268)**	(13,781)
Business development		**(4,759)**	(4,035)
Rent and other occupancy		**(1,742)**	(1,731)
Research		**(1,862)**	(1,880)
Technology		**(1,662)**	(1,542)
Legal and compliance		**(1,106)**	(1,041)
Other professional		**(651)**	(529)
Depreciation	8	**(853)**	(676)
Mail house and periodic reporting		**(598)**	(453)
Audit fee	19	**(456)**	(374)
Share registry		**(466)**	(401)
Insurance		**(397)**	(377)
Other		**(152)**	(380)
Share-based payments		**–**	(455)
Total expenses		**(58,872)**	(58,751)
Profit before income tax expense		**301,550**	261,045
Income tax expense	4	**(88,051)**	(71,178)
Profit after income tax expense for the year attributable to the owners of Platinum Asset Management Limited		**213,499**	189,867

	NOTE	CONSOLIDATED 2015 $'000	2014 $'000
Other comprehensive income			
Reclassification to profit and loss on the disposal of Platinum World Funds Plc.		**1,158**	(5,405)
Exchange rate translation impact of foreign subsidiaries		**4,377**	–
Other comprehensive income for the year, net of tax		**5,535**	(5,405)
Total comprehensive income for the year attributable to the owners of Platinum Asset Management Limited		**219,034**	184,462

		CENTS	CENTS
Basic earnings per share	28	**36.66**	32.79
Diluted earnings per share	28	**36.66**	32.44

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

		CONSOLIDATED	
	NOTE	**2015 $'000**	2014 $'000
Assets			
Current assets			
Cash and cash equivalents		**127,679**	24,854
Financial assets at fair value through profit or loss	6	**119**	69,746
Term deposits		**199,268**	273,813
Trade and other receivables	7	**40,707**	33,445
Total current assets		**367,773**	401,858
Non-current assets			
Net deferred tax assets	5	**–**	1,484
Fixed assets	8	**3,130**	2,784
Total non-current assets		**3,130**	4,268
Total assets		**370,903**	406,126
Liabilities			
Current liabilities			
Trade and other payables	9	**7,557**	9,363
Financial liabilities at fair value through profit or loss	10	**–**	911
Income tax payable		**9,142**	17,977
Employee benefits	11	**2,770**	2,619
Total current liabilities		**19,469**	30,870
Non-current liabilities			
Net deferred tax liabilities	5	**2,254**	–
Total non-current liabilities		**2,254**	–
Total liabilities		**21,723**	30,870
Net assets		**349,180**	375,256
Equity			
Issued capital	12	**751,355**	722,812
Reserves	13	**(588,014)**	(593,549)
Retained profits	14	**185,839**	245,993
Total equity		**349,180**	375,256

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2013	**712,955**	**(562,146)**	**193,265**	**344,074**
Profit after income tax expense for the year	–	–	189,867	189,867
Other comprehensive income for the year, net of tax	–	(5,405)	–	(5,405)
Total comprehensive income for the year	–	(5,405)	189,867	184,462
Transactions with owners in their capacity as owners				
Exercise of options (Note 12)	9,857	–	–	9,857
Share-based payments reserve	–	(1,035)	–	(1,035)
Transfer from share-based payments reserve (Note 13)	–	(24,963)	24,963	–
Dividends paid (Note 15)	–	–	(162,102)	(162,102)
Balance at 30 June 2014	722,812	(593,549)	245,993	375,256

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2014	**722,812**	**(593,549)**	**245,993**	**375,256**
Profit after income tax expense for the year	–	–	213,499	213,499
Other comprehensive income				
Reclassification to profit and loss on the disposal of Platinum World Funds Plc.	–	1,158	–	1,158
Exchange rate translation impact of foreign subsidiaries	–	4,377	–	4,377
Total comprehensive income for the year	–	5,535	213,499	219,034
Transactions with owners in their capacity as owners				
Exercise of options (Note 12)	28,543	–	–	28,543
Dividends paid (Note 15)	–	–	(273,653)	(273,653)
Balance at 30 June 2015	**751,355**	**(588,014)**	**185,839**	**349,180**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	CONSOLIDATED 2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from operating activities		**332,814**	306,947
Payments for operating activities		**(58,804)**	(54,372)
Income taxes paid		**(93,145)**	(69,023)
Net cash from operating activities	27	**180,865**	183,552
Cash flows from investing activities			
Interest received		**7,887**	10,360
Proceeds on maturity of term deposits		**681,126**	765,125
Purchases of term deposits		**(606,581)**	(730,625)
Receipts from sale of financial assets		**135,744**	158,952
Payments for purchases of financial assets		**(63,553)**	(230,591)
Purchase of fixed assets		**(1,200)**	(742)
Dividends received		**303**	467
Distributions received		**4**	2
Net cash from/(used in) investing activities		**153,730**	(27,052)
Cash flows from financing activities			
Proceeds from issue of shares	12	**28,543**	9,857
Dividends paid		**(273,539)**	(162,050)
Net cash used in financing activities		**(244,996)**	(152,193)
Net increase in cash and cash equivalents		**89,599**	4,307
Cash and cash equivalents at the beginning of the financial year		**24,854**	24,052
Effects of exchange rate changes on cash and cash equivalents		**13,226**	(3,505)
Cash and cash equivalents at the end of the financial year		**127,679**	24,854

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

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

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

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

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates have been made, are disclosed in Note 2.

Parent entity information
In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only and have been prepared on the same basis as the consolidated entity financial statements. Supplementary information about the parent entity is disclosed in Note 24.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Platinum Asset Management Limited ("Company" or "parent entity") as at 30 June 2015 and the results of all subsidiaries for the year then ended. Platinum Asset Management Limited and its subsidiaries together are referred to in these financial statements as the "consolidated entity".

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant accounting policies Continued

Principles of consolidation Continued

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity.

Operating segments

Operating segments are presented using the "management approach", where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). The CODM refers to the Board of the Company, who are responsible for the allocation of resources to operating segments and assessing their performance. Refer to Note 3 for further information.

Foreign currency translation

Items included in the consolidated entity's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the country that the consolidated entity is regulated. The Australian dollar is also the consolidated entity's presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Other offshore companies within the consolidated group

The results and financial position of companies in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for the consolidated statement of financial position presented are translated at the closing rate at the date of the consolidated statement of financial position;

1. Significant accounting policies Continued

Foreign currency translation Continued

- income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the date of transaction, or in certain instances, for practical purposes, a rate that approximates the rate at transaction date is used (for example, an average rate); and
- any exchange rate differences are recognised in other comprehensive income and accumulated as a separate reserve in equity.

The foreign currency reserve is recognised in the profit or loss when the foreign operation or net investment is disposed of.

Financial assets/liabilities at fair value through profit or loss

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the consolidated entity's statement of financial position as "financial assets at fair value through profit or loss". Derivatives and foreign currency contracts are classified as financial instruments "held for trading" and equity securities are designated at fair value through profit or loss upon initial recognition.

The consolidated entity has applied AASB 13: *Fair Value Measurement*. AASB 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". AASB 13 increases transparency about fair value measurements, including the valuations techniques and inputs used to measure fair value.

The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the consolidated entity, the last-sale or "last" price is the most representative price within the bid-ask spread, because it represents the price that the security last changed hands from seller to buyer.

The consolidated entity has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

AASB 13 also requires reporting entities to disclose its valuation techniques and inputs. This is described below.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at reporting date without any deduction for estimated future selling costs. Financial assets are valued using "last-sale" pricing. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated statement of profit or loss and other comprehensive income in the period they arise.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant accounting policies Continued

Financial assets/liabilities at fair value through profit or loss Continued

Fair value in an inactive market

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

Recognition/derecognition

The consolidated entity recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have ceased or have been transferred and the consolidated entity has transferred substantially all of the risks and rewards of ownership.

In accordance with Australian Accounting Standards, derivative financial instruments are categorised as "financial assets/liabilities held for trading" and are accounted for at fair value with changes to such values recognised through the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Short futures are valued based on quoted last prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated statement of profit or loss and other comprehensive income in the period they arise. An assessment is made at the end of each reporting period as to whether there is objective evidence that an investment is impaired.

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 daily Net Asset Value and is payable monthly. A performance fee is recognised as income at the end of the fee period to which it relates, when the Group's entitlement to the fee becomes certain.

Interest Income

Interest income is recognised in the consolidated statement of profit or loss and other comprehensive income and is based on the nominated interest rate available on the bank accounts and term deposits held.

1. Significant accounting policies Continued

Revenue recognition Continued

Trust Distributions

Trust distributions are recognised when the consolidated entity becomes entitled to the income.

Dividend Income

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

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 all of its 100 per cent wholly-owned Australian subsidiaries.

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant accounting policies Continued

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is expected to be realised within 12 months after the reporting period; or the asset is cash or a cash equivalent. All other assets are classified as non-current.

A liability is classified as current when: it is due to be settled within 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Trade and other receivables
All receivables are measured at amortised cost and are not discounted and recognised when a right to receive payment is established. Trade receivables are predominantly comprised of management and performance fees earned, but not received, at balance date. Any debts that are known to be uncollectible are written off.

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 and cash held in margin accounts. Cash equivalents include 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 consolidated statement of cash flows, are reconciled to the related item in the statement of financial position.

At 30 June 2015, nearly all of the Group's term deposits have maturities of more than three months from the date of acquisition with the majority of term deposits having a maturity of six months from the date acquisition. Under AASB 107, deposits that have maturities of more than three months from the date of acquisition are not included as part of "cash and cash equivalents" and have been disclosed separately in the consolidated statement of financial position. All term deposits are held with licensed Australian banks.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of assets are classified as "cash flows from operating activities".

1. Significant accounting policies Continued

Cash and cash equivalents Continued

Receipts from operating activities include management, administration and performance fees receipts. Payments for operating activities include payments to suppliers and employees.

During the year, the consolidated entity received proceeds from the issue of new shares in the Company. The issue of shares was a result of employees exercising options pursuant to the Options and Performance Rights Plan (OPRP). This is classified as "cash flows from financing activities".

Fixed assets

Fixed assets are stated at historical cost less depreciation. Fixed assets (other than in-house software and applications) 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 and applications	4 years
Communications equipment	4 – 10 years
Office fit out	3 – 13 years
Office furniture and equipment	5 – 13 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

A fixed asset is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

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 consolidated statement of profit or loss and other comprehensive income. Details of the financial commitments relating to the lease are included in Note 21.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant accounting policies Continued

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their general short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits
Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount

1. Significant accounting policies Continued

Share-based payments Continued
recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Issued capital
Ordinary shares are classified as equity.

Dividends
Dividends are recognised when declared during the financial year.

Earnings per share
Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Platinum Asset Management Limited, by the weighted average number of ordinary shares outstanding during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant accounting policies Continued

Earnings per share Continued

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 that are "in the money", but not exercised.

Disclosure of interests in other entities

The consolidated entity has applied AASB 12: *Disclosure of Interests in Other Entities*. AASB 12 requires disclosure about the nature of, and risks associated with, the consolidated entity's interest in other entities. An interest in another entity refers to involvement that exposes the entity to variability of returns from the performance of another entity and includes the means by which an entity has control, and can include the purchase of units or shares in another entity. The consolidated entity will apply the standard to its immaterial interest in the Platinum Trust Funds and any of its subsidiaries. Please refer to Note 23 for the relevant disclosures.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred 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 as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to "rounding-off". Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1. Significant accounting policies Continued

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9: *Financial Instruments (and applicable amendments)*
AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It now includes revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018.

The standard has been assessed as not having a significant impact on the recognition and measurement of the consolidated entity's financial instruments as the financial instruments are carried at fair value through profit or loss.

IASB Annual Improvements to IFRS: 2012-2014 Cycle
The Annual Improvements to IFRS: 2012-2014 Cycle was issued by the International Accounting Standards Board in September 2014 and is the seventh collection of amendments issued under the annual improvement process, which is designed to make necessary, but non-urgent, amendments to IFRSs. The amendments apply for annual periods beginning on or after 1 January 2016 with early adoption permitted. It allows the entity not to disclose certain information in the notes to its interim financial statements, if they are disclosed elsewhere in the interim financial report. This amendment was assessed as not having a significant impact on the consolidated entity.

AASB 15: *Revenue from contracts with customers*
AASB 15 will apply from annual reporting periods beginning on or after 1 January 2018. AASB 15 will replace AASB 111, AASB 118 and AASB 1004.

The main objective of the new standard is to provide a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. Revenue recognised by an asset manager will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in future periods. This means that performance fees will only be recognised once the contractual measurement period is completed. This is consistent with how performance fees are already recognised in the consolidated entity's accounts. This standard was assessed as not having a significant impact on the Company or consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

Estimation of useful lives of assets (Note 8)

The consolidated entity determines the estimated useful lives and related depreciation charges for its fixed assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives.

Recovery of deferred tax assets (Note 5)

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

3. Operating segments

Identification of reportable operating segments

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.

Revenue by geographical area

	2015 $'000	2014 $'000
Geographic region		
Australia	**329,842**	277,008
United States	**30,580**	42,788
	360,422	319,796

With respect to revenue derived from the United States, the decrease in performance fees of $25.1 million were partly offset by the gains made on holdings of its US Dollar cash balance of $16.6 million.

4. Income tax expense

The income tax expense attributable to profit comprises:

	2015 $'000	2014 $'000
Current tax payable	**84,206**	73,067
Deferred tax – recognition of temporary differences	**3,738**	(1,390)
Adjustment recognised for prior periods	**107**	(499)
Income tax expense	**88,051**	71,178
Numerical reconciliation of income tax expense:		
Profit before income tax expense	**301,550**	261,045
Tax at the statutory tax rate of 30%	**90,465**	78,314
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax rate differential on offshore business income	**(2,542)**	(6,353)
Purchase of shares under the Fund Appreciation Rights Plan	**–**	(447)
Share-based payments	**–**	138
Other non-deductible expenses	**21**	25
Adjustment recognised for prior periods	**107**	(499)
Income tax expense	**88,051**	71,178

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5. Non-current liabilities/(assets) – net deferred tax liabilities/(assets)

Deferred tax liabilities/(assets) comprises temporary differences attributable to:

	2015 $'000	2014 $'000
Amounts recognised in statement of financial position:		
Unrealised foreign exchange gains/(losses) on cash	**3,391**	(53)
Unrealised gains on investments	**16**	686
Capital expenditure not immediately deductible	**(65)**	(46)
Long service leave	**(476)**	(483)
Annual leave	**(355)**	(303)
Staff costs	**–**	(984)
Tax fees	**(92)**	(84)
Periodic reporting	**(37)**	(41)
Audit and accounting	**(79)**	(121)
Printing and mail house	**(46)**	(53)
Legal, compliance and regulatory	**(3)**	(38)
Dividend receivable	**–**	36
Net deferred tax liabilities/(assets)	**2,254**	(1,484)

The net deferred tax liability figure is comprised of $1,153,000 (2014: $2,206,000) of deferred tax assets and $3,407,000 (2014: $722,000) of deferred tax liability.

It is estimated that most of the non-investment related deferred tax assets will be recovered or settled within 12 months, and are estimated to be $1,148,987 (2014: $2,204,000).

	2015 $'000	2014 $'000

6. Current assets – financial assets at fair value through profit or loss

	2015 $'000	2014 $'000
Unlisted unit trust investments	**119**	98
Equity securities	**–**	69,386
Derivatives	**–**	262
	119	69,746

During the year, as a result of Platinum World Funds Plc. ceasing activity, all assets held by the UCITS Fund were realised and Platinum Investment Management Limited redeemed its investment.

Refer to Note 17 for further information on fair value measurement.

7. Current assets – trade and other receivables

	2015 $'000	2014 $'000
Trade receivables	**38,872**	30,445
Interest receivable	**833**	1,627
Prepayments	**991**	1,228
Sundry debtors (distribution receivable)	**11**	4
Dividends receivable	**–**	121
Proceeds from sale of financial assets	**–**	20
	40,707	33,445

Trade receivables include performance fees receivable of $1,903,861 (2014: $3,393,340). The balance of trade debtors is comprised of management fees and administration fees. The increase in trade receivables is due to higher FUM at 30 June 2015 relative to 30 June 2014. Trade receivables are received between seven to 30 days after becoming receivable.

Interest receivable comprises accrued interest on term deposits and cash accounts.

Interest on cash accounts is received within three days of becoming receivable and interest on term deposits is received on maturity. The dividends receivable in the prior year were derived by Platinum World Funds Plc. that ceased operations during the year.

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	2015 $'000	2014 $'000
8. Non-current assets – fixed assets		
Computer equipment – at cost	**1,088**	1,046
Less: Accumulated depreciation	**(939)**	(811)
	149	235
Software and applications – at cost	**4,270**	3,711
Less: Accumulated depreciation	**(3,114)**	(2,665)
	1,156	1,046
Communications equipment – at cost	**152**	140
Less: Accumulated depreciation	**(100)**	(64)
	52	76
Office premises fit out – at cost	**2,240**	1,722
Less: Accumulated depreciation	**(666)**	(484)
	1,574	1,238
Furniture and equipment – at cost	**629**	565
Less: Accumulated depreciation	**(430)**	(376)
	199	189
	3,130	2,784

8. Non-current assets – fixed assets Continued

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	COMPUTER EQUIPMENT $'000	SOFTWARE AND APPLICATIONS $'000	COMMUN-ICATIONS EQUIPMENT $'000	OFFICE PREMISES FIT OUT $'000	FURNITURE AND EQUIPMENT $'000	TOTAL $'000
Balance at 1 July 2013	403	770	26	1,287	241	2,727
Additions	41	619	77	–	5	742
Disposals	–	(1)	(8)	–	–	(9)
Depreciation expense	(209)	(342)	(19)	(49)	(57)	(676)
Balance at 30 June 2014	235	1,046	76	1,238	189	2,784
Additions	43	559	19	516	63	1,200
Disposals	–	–	(1)	–	–	(1)
Depreciation expense	(129)	(449)	(42)	(180)	(53)	(853)
Balance at 30 June 2015	**149**	**1,156**	**52**	**1,574**	**199**	**3,130**

The closing balance of purchased and capitalised software and applications disclosed above includes amounts recognised in relation to software and applications in the course of construction and development of $nil at 30 June 2015 (2014: $161,643).

	2015 $'000	2014 $'000
9. Current liabilities – trade and other payables		
Trade payables	**4,482**	7,044
Unclaimed dividends payable to shareholders	**472**	356
GST payable	**2,603**	1,963
	7,557	9,363

Trade payables reduced in the current year partly because there was no Profit Share Pool (PSP) allocation made to senior investment analysts.

Trade payables are unsecured and payable between seven and 30 days after the consolidated entity becomes liable.

Refer to Note 16 for further information on financial risk management.

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	2015 $'000	2014 $'000
10. Current liabilities – financial liabilities at fair value through profit or loss		
Derivatives	–	813
Forward currency contracts	–	98
	–	911

During the year, the consolidated entity closed its short position over the Japanese Government Bond (JGB) futures contracts. In addition, as a result of Platinum World Funds Plc. ceasing activity, all liabilities held by the UCITS Fund were realised.

11. Current liabilities – employee benefits

	2015 $'000	2014 $'000
Annual leave	**1,182**	1,010
Long service leave	**1,588**	1,609
	2,770	2,619

	2015 SHARES	2014 SHARES	2015 $'000	2014 $'000

12. Equity – issued capital

	2015 SHARES	2014 SHARES	2015 $'000	2014 $'000
Ordinary shares – fully paid	**586,678,900**	580,336,142	**751,355**	722,812

Movements in ordinary share capital

DETAILS	DATE	SHARES	$'000
Balance	1 July 2013	578,145,695	712,955
Exercise of options – issue of shares	August 2013	70,000	315
Exercise of options – issue of shares	September 2013	70,000	315
Exercise of options – issue of shares	October 2013	200,000	900
Exercise of options – issue of shares	November 2013	170,000	765
Exercise of options – issue of shares	December 2014	30,000	135
Exercise of options – issue of shares	February 2014	1,273,400	5,730
Exercise of options – issue of shares	March 2014	130,000	585
Exercise of options – issue of shares	April 2014	194,000	873
Exercise of options – issue of shares	May 2014	53,047	239
Balance	30 June 2014	580,336,142	722,812
Exercise of options – issue of shares	September 2014	200,140	901
Exercise of options – issue of shares	October 2014	305,700	1,376
Exercise of options – issue of shares	November 2014	296,000	1,332
Exercise of options – issue of shares	December 2014	757,398	3,408
Exercise of options – issue of shares	February 2015	1,756,649	7,905
Exercise of options – issue of shares	March 2015	1,000,000	4,500
Exercise of options – issue of shares	April 2015	805,023	3,623
Exercise of options – issue of shares	May 2015	793,399	3,570
Exercise of options – issue of shares	June 2015	428,449	1,928
Balance	**30 June 2015**	**586,678,900**	**751,355**

NOTES TO THE FINANCIAL STATEMENTS
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12. Equity – issued capital Continued

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Exercise of options – issue of shares
During the year 6,342,758 (2014: 2,190,447) options were exercised and new shares issued for consideration of $28,543,000 (2014: $9,857,000). There are no options outstanding at 30 June 2015.

13. Equity – reserves

	2015 $'000	2014 $'000
Foreign currency translation reserve	**130**	(5,405)
Capital reserve	**(588,144)**	(588,144)
	(588,014)	(593,549)

Foreign currency reserve
Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated as a separate reserve within equity. The balance of the foreign currency translation reserve was $130,000 at 30 June 2015.

During the year, Platinum World Funds Plc. ceased activity. The balance in the foreign currency translation reserve at 30 June 2015 relates exclusively to PIMA Corp (US).

Capital reserve
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.

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.

13. Equity – reserves Continued

Capital reserve Continued

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

The amount of $588,144,000 was established on listing as a result of the difference between the consideration paid for the purchase of non-controlling interests and the share of net assets acquired in the minority interests.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	SHARE-BASED PAYMENTS $'000	FOREIGN CURRENCY $'000	CAPITAL $'000	TOTAL $'000
Balance at 1 July 2013	25,998	–	(588,144)	(562,146)
Foreign currency translation	–	(5,405)	–	(5,405)
Fund appreciation rights granted on 1 April 2011 and vested on 31 March 2014	455	–	–	455
Elimination of reserves – shares allocated to employees based on Fund appreciation rights that vested on 31 March 2014	(1,490)	–	–	(1,490)
Transfer to retained profits – share-based payments	(24,963)	–	–	(24,963)
Balance at 30 June 2014	–	(5,405)	(588,144)	(593,549)
Reclassification to profit and loss on the disposal of Platinum World Funds Plc.	–	1,158	–	1,158
Exchange rate translation impact of foreign subsidiaries	–	4,377	–	4,377
Balance at 30 June 2015	**–**	**130**	**(588,144)**	**(588,014)**

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	2015 $'000	2014 $'000
14. Equity – retained profits		
Retained profits at the beginning of the financial year	**245,993**	193,265
Transfer from share-based payments reserve	**–**	24,963
Profit after income tax expense for the year	**213,499**	189,867
Dividends paid (Note 15)	**(273,653)**	(162,102)
Retained profits at the end of the financial year	**185,839**	245,993

Retained earnings reduced because of the payment of the special dividend of $58.4 million (10 cents per share) on 18 March 2015.

15. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	2015 $'000	2014 $'000
Dividend paid on 23 September 2014 (2014: 23 September 2013) of 20 cents (2014: 14 cents) per ordinary share	**116,067**	80,950
Dividend paid on 18 March 2015 (2014: 17 March 2014) of 17 cents (2014: 14 cents) per ordinary share	**99,221**	81,152
Special dividend paid on 18 March 2015 of 10 cents per ordinary share	**58,365**	–
	273,653	162,102

Dividends not recognised at year-end

Since 30 June 2015, the Directors declared to pay a fully-franked dividend of 20 cents per share, payable out of profits for the 12 months to 30 June 2015. The dividend has not been provided for at 30 June 2015, because the dividend was declared after year-end.

15. Equity – dividends Continued

Franking credits

	2015 $'000	2014 $'000
Franking credits available at reporting date based on a tax rate of 30%	**78,107**	102,242
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	**9,142**	17,977
Franking credits available for subsequent financial years based on a tax rate of 30%	**87,249**	120,219

The provision for income tax at reporting date has decreased in 2015 because tax instalments are now paid monthly, whereas in the past they were paid quarterly. The franking account balance has reduced, in part, because the Company paid a special dividend of 10 cents per share on 18 March 2015.

16. Financial risk management

Financial risk management objectives

The Company's and 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").

Indirect exposure occurs because the operating subsidiary, Platinum Investment Management Limited, is the Investment Manager for various investment vehicles (which include investment mandates, various unit trusts and an operational ASX-listed investment vehicle, Platinum Capital Limited). At 30 June 2015, the consolidated entity has no investment in these mandates and its ASX-listed vehicle and an immaterial investment in its unit trusts.

This note discusses the direct exposure to risk of the consolidated entity. The consolidated entity's risk management procedures focus on managing the potential adverse effects on financial performance caused by volatility of financial markets.

NOTES TO THE FINANCIAL STATEMENTS
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16. Financial risk management Continued

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 underperformance 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;

(iv) A loss of key personnel; and

(v) Investor allocation decisions: investors constantly reassess and reallocate 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 has 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, and is calculated at the end of each calendar year and is based on absolute (and not relative) return.

Performance fees may be earned by the consolidated entity, if the investment return of a Platinum Trust Fund, Platinum Capital Limited or applicable Mandate exceeds a specified benchmark. Should the actual performance of a Platinum Trust Fund, Platinum Capital Limited or applicable Mandate be higher than the applicable benchmark, a performance

16. Financial risk management Continued

Market risk Continued

fee may be receivable for the financial year. As at 30 June 2015, performance fees of $1,903,861 (2014: $3,393,340) were receivable.

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 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 Chinese market to grow whilst other Asian markets fall.

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 2015.

Foreign currency risk

The consolidated entity is materially exposed to foreign exchange risk as it holds US Dollars in liquid cash (sourced from the redemption of its Platinum World Funds Plc. Investment) and derives management and performance fees from its Bermudan and US-based investment mandates in US Dollars.

At 30 June 2015, the Company held US$96,884,319 (equivalent to A$125,709,510) in cash (2014: US$14,000,005 equivalent to A$14,841,519). If the Australian Dollar had been 10% higher/lower against the US Dollar than the prevailing exchange rate used to convert the balance with all other variables held constant, then net profit after tax would have been A$8,002,588 lower/A$9,781,711 higher (2014: $944,187 lower/$1,153,933 higher).

If the Australian Dollar had been 10% higher/lower against the US Dollar than the prevailing exchange rate used to convert the Mandate fees with all other variables held constant, then net profit after income tax expense would have been A$1,172,418 lower/A$1,432,684 higher (2014: A$2,946,593 lower/A$3,601,306 higher).

NOTES TO THE FINANCIAL STATEMENTS
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16. Financial risk management Continued

Market risk Continued

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

At 30 June 2015, term deposits are the only significant asset with potential exposure to interest rate risk held by the consolidated entity. A movement of +/–1% in Australian interest rates occurring on 30 June 2015 will have no impact on profit as the interest rate on term deposits are determined on execution.

As stated above, the quantity of USD cash held by the consolidated entity at 30 June 2015 was A$125,709,510 (or 36% of net assets). If current account interest rates in the United States, which were 0.01% at 30 June 2015, moved +/–1%, then profit after tax would have been A$879,967 higher/lower.

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the consolidated entity (typically "non-equity" financial instruments). Credit risk arises from the financial assets of the consolidated entity that include: cash, receivables and term deposits. All term deposits are held with licensed Australian banks that all have a AA– credit rating. All current account and cash balances are held with counterparties that have at least an A– credit rating.

The maximum exposure to direct credit risk at balance date is the carrying amount of cash and financial assets recognised in the Statement of Financial Position. 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 Investment Manager. 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 Global Fund, 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 the section on Market Risk. The Investment Manager employs standard market practices for managing its credit risk exposure.

The credit quality of cash and term deposits held by each entity in the group can be assessed by reference to external credit ratings. At 30 June 2015 and 30 June 2014, the relevant credit ratings were as follows:

16. Financial risk management Continued

Credit risk Continued

	2015 $'000	2014 $'000
Rating		
AA	–	285,100
AA–	**208,861**	
A+	**117,625**	14,419
A	–	2,270
A–	**461**	5,916
	326,947	307,705

Liquidity risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting obligations associated with its 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 forecasts on a weekly basis.

Remaining contractual maturities

The following table details the consolidated entity's remaining contractual maturity for its financial and non-financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial and non-financial liabilities based on the earliest date on which the financial and non-financial liabilities are required to be paid.

2015	AT CALL $'000	WITHIN 30 DAYS $'000	BETWEEN 1 AND 3 MONTHS $'000	OVER 3 MONTHS $'000	TOTAL $'000
Non-financial					
Trade payables	–	**4,482**	–	–	**4,482**
GST payable	–	**2,603**	–	–	**2,603**
Current tax payable	–	–	**9,142**	–	**9,142**
Unclaimed dividends payable	**472**	–	–	–	**472**
Annual leave	**1,182**	–	–	–	**1,182**
Long service leave	**1,588**	–	–	–	**1,588**
Total non-financial	**3,242**	**7,085**	**9,142**	–	**19,469**

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16. Financial risk management Continued

Liquidity risk Continued

Remaining contractual maturities Continued

2014	AT CALL $'000	WITHIN 30 DAYS $'000	BETWEEN 1 AND 3 MONTHS $'000	OVER 3 MONTHS $'000	TOTAL $'000
Non-financial					
Trade payables	–	7,044	–	–	7,044
GST payable	–	1,963	–	–	1,963
Current tax payable	–	–	17,977	–	17,977
Unclaimed dividends payable	356	–	–	–	356
Annual leave	1,010	–	–	–	1,010
Long service leave	1,609	–	–	–	1,609
Total non-financial	2,975	9,007	17,977	–	29,959
Financial					
Derivative contractual outflows	–	–	813	–	813
Foreign currency contracts	–	–	98	–	98
Total financial	–	–	911	–	911

At 30 June 2015, the consolidated entity has sufficient cash reserves of $324,771,720 (2014: $297,061,737) and a further $39,554,906 (2014: $31,954,429) of receivables to cover these liabilities. The current year cash reserves figure includes $206,267,900 of term deposits (including a term deposit of $7 million classified as "cash" in the statement of financial position). All of these term deposits have maturities of six months or less from the date of acquisition.

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

16. Financial risk management Continued

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 income tax expense. 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 and Investment Commission (ASIC) requires the subsidiary to:

– prepare 12-month cash-flow projections which must be approved at least quarterly by directors;
– hold at all times minimum Net Tangible Assets (NTA) the greater of:
  - $150,000;
  - 0.5% of the average value of scheme property (capped at $5 million); or
  - 10% of the average Responsible Entity (RE) revenue (uncapped).

The operating subsidiary must hold at least 50% of its minimum NTA requirement as cash or cash equivalents and hold at least $50,000 in Surplus Liquid Funds (SLF).

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

17. Fair value measurement

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).

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17. Fair value measurement Continued

Fair value hierarchy Continued
The consolidated entity measures and recognises the following financial assets and liabilities at fair value, pursuant to AASB 13, on a recurring basis:

(i) Equity securities, long equity swaps and long futures;

(ii) Short equity swaps and short futures;

(iii) Forward currency contracts; and

(iv) Unit trust investments.

The following table analyses within the fair value hierarchy model, the consolidated entity's assets and liabilities measured at fair value at 30 June 2015 and 30 June 2014. The consolidated entity has no assets or liabilities that are classified as level 3.

2015	**LEVEL 1 $'000**	**LEVEL 2 $'000**	**TOTAL $'000**
Assets			
Unlisted unit trust investments	**119**	**–**	**119**
Total assets	**119**	**–**	**119**

2014	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Assets			
Equity securities	61,473	7,913	69,386
Derivatives	–	262	262
Unlisted unit trust investments	98	–	98
Total assets	61,571	8,175	69,746
Liabilities			
Derivatives	748	65	813
Foreign currency contracts	–	98	98
Total liabilities	748	163	911

The consolidated entity's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for any assets or liabilities measured at fair value during the year.

17. Fair value measurement Continued

Fair value hierarchy Continued
There are few investments at fair value at 30 June 2015 compared to 30 June 2014 because Platinum World Funds Plc. was wound up during the year and disposed of all of its investments.

Rationale for classification of assets and liabilities as level 2
At 30 June 2014, there were certain financial instruments that were classified as level 2, because whilst significant inputs were observable, there was a degree of estimation involved in deriving the fair value. Examples include:

(i) foreign exchange contracts were classified as level 2 even though forward points were quoted in an active and liquid market. The forward points themselves were based on interest rate differentials;

(ii) certain P-Notes/warrants were classified as level 2 because they were generally traded over-the-counter and were often priced in a different currency to the underlying security; and

(iii) certain Over-The-Counter (OTC) derivatives/options were classified as level 2 because either:

    (i) the derivative swap contract itself was not listed and therefore there was no directly observable market price; or

    (ii) the price was sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) could be verified from either Bloomberg or other option pricing models.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

	2015 $'000	2014 $'000
18. Key management personnel disclosures		
The aggregate remuneration that the consolidated entity provided Executive and Non-Executive Directors was as follows:		
Cash salary and short-term incentive bonuses	**3,358**	4,780
Superannuation	**130**	121
Increase/(decrease) in the consolidated entity's annual and long service leave provision	**(10)**	16
	3,478	4,917

Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
Michael Cole	200,000	–	–	200,000
Bruce Coleman	100,000	–	(75,000)	25,000
Margaret Towers	20,000	–	–	20,000
Stephen Menzies	30,000	–	–	30,000
Kerr Neilson	322,074,841	–	(10,000,000)	312,074,841
Andrew Clifford	32,831,449	3,844,350	(3,844,350)	32,831,449
Elizabeth Norman	766,748	991,123	(991,123)	766,748

19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers (the auditor of the Company) and its overseas network firms:

	2015 $	2014 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**107,811***	91,320
Audit services for managed funds for which the Company acts as responsible entity – PricewaterhouseCoopers		
Audit and review of the financial statements	**244,411**	217,871
Audit services – overseas PricewaterhouseCoopers firms		
Audit of financial statements	**104,102**	64,729
Total audit services	**456,324**	373,920
Taxation services – PricewaterhouseCoopers		
Compliance services for the Company	**173,938**	83,713
Taxation services for managed funds for which the Company acts as responsible entity – PricewaterhouseCoopers		
Taxation services	**381,359**	325,989
Taxation services – overseas PricewaterhouseCoopers firms		
Foreign tax agent fees	**12,530**	22,104
Total taxation services	**567,827**	431,806
Other services – PricewaterhouseCoopers		
Compliance and assurance services	**97,144**	158,810
Remuneration services	**–**	15,500
Total other services	**97,144**	174,310
Total fees paid and payable to the auditor and its related practices	**1,121,295**	980,036

* $7,411 related to additional audit work performed by PwC for Platinum World Funds that related to 30 June 2014, that was billed in the current year.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

20. Contingent assets and liabilities
No contingent assets or liabilities exist at 30 June 2015 and 30 June 2014.

	2015 $'000	2014 $'000

21. Commitments
Lease commitments – operating

Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**1,440**	967
One to five years	**2,281**	–
	3,721	967

The operating lease relates to the business premises that the consolidated entity occupies.

The consolidated entity has no commitments for significant capital expenditure.

22. Related party transactions
Subsidiaries
Interests in subsidiaries are set out in Note 25.

Key management personnel
Disclosures relating to key management personnel are set out in Note 18 and the Remuneration Report in the Directors' Report.

Tax consolidation and dividend transactions
Any tax payable on income and gains from any entity within the consolidated entity and dividends are sourced from the operating subsidiary, Platinum Investment Management Limited, and paid out under 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 to shareholders are disclosed in the consolidated Statement of Cash Flows.

Transactions with related parties
Platinum Investment Management Limited provides investment management services to related party unit trusts – the Platinum Trust Funds and Platinum Global Fund 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, Platinum Global Fund and the Platinum Trust Funds, a monthly administration fee from the Platinum Trust Funds and Platinum Global Fund and in some

22. Related party transactions Continued

Transactions with related parties Continued
instances a performance fee (that is calculated annually) based upon the relevant Fund's and Platinum Capital Limited's investment return over and above a specified benchmark. The total related party fees recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2015 was $279,493,123 (2014: $229,623,373). The total related party fees receivable recognised in the statement of financial position at 30 June 2015 was $27,729,311 (2014: $21,691,456).

Platinum has commenced an Initial Public Offering (IPO) for Platinum Asia Investments Limited (PAIL) and has incurred expenses of the offer on its behalf, during the year, of $66,562. These expenses will be recharged to PAIL on successful completion of the IPO. The Platinum Group intends to be a long-term co-investor in PAIL and has committed to investing 25% of the funds raised up to a cap of $50 million.

Platinum Investment Management Limited holds small investments in the Platinum Trust Funds. At 30 June 2015, the amount of this investment as disclosed in the statement of financial position was $118,741 (2014: $98,009). The income distribution relating to this, as disclosed in the consolidated statement of profit or loss and other comprehensive income was $10,622 (2014: $3,793).

During the year, Platinum World Funds Plc. ceased activity and the consolidated entity redeemed its investment. The amount redeemed was A$85 million. The consolidated entity will shortly provide seeding of US$25 million for a new offshore fund, Platinum World Portfolios Plc.

Platinum Investment Management Limited is liable to pay an inter-company service fee to PIMA Corp, and at 30 June 2015, this fee is US$350,898 (2014: US$223,237), which is the equivalent of A$437,796 (2014: A$245,345). This fee is not recognised in the consolidated profit or loss, as the fee is an inter-group transaction. At 30 June 2015, the net assets of PIMA Corp were A$9,011 (2014: A$14,841). At 30 June 2015, PIMA Corp is not operational and maintains a minimal cash balance to fund ongoing regulatory requirements.

Loan agreements with related parties
There were no formal loan agreements executed with related parties at the current and previous reporting date, but there are inter-company receivables and payables.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

23. Disclosure of interests in other entities

(a) Structured entity disclosures

A structured entity is an entity that is not part of the consolidated group, despite one or more entities within the consolidated group purchasing units or shares in the other (structured) entity. The relevant activities of unconsolidated structured entities are directed by the Investment Manager by means of contractual arrangements, such as an Investment Management Agreement. At 30 June 2015, the consolidated entity holds an investment that can be described as a structured entity, via Platinum Investment Management Limited (PIML) holding small investments of less than 1% in each of the Platinum Trust Funds, and receiving management, administration and performance fees for its role as investment manager.

The following table provides information in relation to this investment:

	2015 $'000	2014 $'000
Net Asset Value attributable to all investors		
Platinum Trust Funds	**19,360,960**	16,346,241
Maximum exposure (includes PIMLs interest and fees receivable)		
Platinum Trust Funds	**27,322**	21,322

(b) Subsidiary disclosures

Platinum Investment Management Limited directly owns 100% of McRae Limited, Platinum Asset Pty Limited, Platinum Investment Management Limited and PIMA Corp (US). The consolidated entity's maximum exposure in each entity is summarised below:

	2015 $'000	2014 $'000
Net Asset Value attributable to all investors		
McRae Pty Limited	**13,677**	13,677
Platinum Asset Pty Limited	**42,362**	42,362
Platinum Investment Management Limited	**194,303**	172,873
Platinum World Funds Plc.	**–**	79,215
PIMA Corp (US)	**9**	15
	250,351	308,142

23. Disclosure of interests in other entities Continued

(b) Subsidiary disclosures Continued

During the year, Platinum World Funds Plc. ceased activity and the consolidated entity redeemed its investment.

There is no additional off-Statement of Financial Position arrangements which would expose the consolidated entity to potential loss.

24. Parent entity information

Set out below is supplementary information about the parent entity.

	PARENT 2015 $'000	PARENT 2014 $'000
Profit after income tax	**273,784**	164,276
Total comprehensive income	**273,784**	164,276

Statement of financial position

	PARENT 2015 $'000	PARENT 2014 $'000
Total current assets	**134,182**	113,294
Total assets	**764,669**	744,717
Total current liabilities	**(9,614)**	(18,335)
Total liabilities	**(9,614)**	(18,335)
Net assets	**755,055**	726,382
Equity		
Issued capital	**751,355**	722,812
Capital reserve	**(19)**	(19)
Retained profits	**3,719**	3,589
Total equity	**755,055**	726,382

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2015

25. Interests in 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:

		OWNERSHIP INTEREST	
NAME	PRINCIPAL PLACE OF BUSINESS/COUNTRY OF INCORPORATION	**2015 %**	2014 %
McRae Pty Limited	Australia	**100**	100
Platinum Asset Pty Limited	Australia	**100**	100
Platinum Investment Management Limited	Australia	**100**	100
Platinum Asset Management Pte Ltd	Singapore	**–**	100
Platinum Investment Management Australia Corp.	United States	**100**	100
Platinum World Funds Plc.	Ireland	**–**	100

During the year, the consolidated entity wound up the following two entities:

- 100% owned Singapore incorporated subsidiary Platinum Asset Management Pte Limited; and
- 100% owned related party entity, Platinum World Funds Plc., incorporated in the Republic of Ireland.

26. Events after the reporting period

Apart from the dividend declared in August 2015, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

27. Reconciliation of profit after income tax to net cash from operating activities

	2015 $'000	2014 $'000
Profit after income tax expense for the year	**213,499**	189,867
Adjustments for:		
Depreciation expense	**853**	618
Net loss on disposal of fixed assets	**1**	9
Share-based payments	**–**	1,035
Foreign exchange differences	**(16,898)**	(345)
Interest income	**(7,093)**	(9,480)
Movement in investments	**4,633**	907
Change in operating assets and liabilities:		
Increase in trade and other receivables	**(7,499)**	(5,671)
Decrease/(increase) in deferred tax assets	**1,484**	(1,341)
Decrease in prepayments	**237**	47
(Decrease)Increase in trade creditors and GST	**(1,922)**	4,209
Increase/(decrease) in provision for income tax	**(8,835)**	3,548
Increase/(decrease) in deferred tax liabilities	**2,254**	(49)
Increase in employee benefits	**151**	198
Net cash from operating activities	**180,865**	183,552

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

28. Earnings per share

	2015 $'000	2014 $'000
Profit after income tax attributable to the owners of Platinum Asset Management Limited	**213,499**	189,867

	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	**582,452,336**	579,022,549
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	**–**	6,342,758
Weighted average number of ordinary shares used in calculating diluted earnings per share	**582,452,336**	585,365,307

	CENTS	CENTS
Basic earnings per share	**36.66**	32.79
Diluted earnings per share	**36.66**	32.44

All 6,342,758 unexercised options at the start of the year were fully exercised during the year.

There are no unexercised options at 30 June 2015.

29. Share-based payments

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. Since June 2009, no options have been granted. Performance Rights were granted under this plan in 2007.

Options, granted, vested and exercised

On 17 June 2009, certain highly-qualified 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 (net of forfeitures) vested on 17 June 2013 and had a further two year exercise period. At 30 June 2015, all vested options were exercised and 6,342,758 new shares were issued during the year.

Total proceeds received from the issue of new shares during the year were $28,543,000 and this amount appears in the Consolidated Statement of Cash Flows as "Proceeds from issue of shares".

Set out below are summaries of options granted under the plan:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED	BALANCE AT THE END OF THE YEAR
2015							
17/06/2009	**17/06/2015**	**$4.50**	**6,342,758**	**–**	**(6,342,758)**	**–**	**–**
			6,342,758	**–**	**(6,342,758)**	**–**	**–**

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED	BALANCE AT THE END OF THE YEAR
2014							
17/06/2009	17/06/2015	$4.50	8,533,205	–	(2,190,447)	–	6,342,758
			8,533,205	–	(2,190,447)	–	6,342,758

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2015

30. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the table below. There were no financial assets or financial liabilities that were offset in 2015.

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS(1)	CASH COLLATERAL	NET AMOUNT
30 June 2015						
Financial Assets						
Derivatives	–	–	–	–	–	–
Total	–	–	–	–	–	–
Financial Liabilities						
Derivatives	–	–	–	–	–	–
Foreign currency contracts	–	–	–	–	–	–
Total	–	–	–	–	–	–
30 June 2014						
Financial Assets						
Derivatives	262	–	262	(262)	–	–
Total	262	–	262	(262)	–	–
Financial Liabilities						
Derivatives	813	–	813	(262)	(551)	–
Foreign currency contracts	98	–	98	–	(98)	–
Total	911	–	911	(262)	(649)	–

(1) Shows the impact of arrangements between the consolidated entity and the relevant counterparty on financial instruments that provide a right to set-off that becomes enforceable and affects settlement of individual financial assets and liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements are not set-off in the Statement of Financial Position, as they were not enforceable.

DIRECTORS' DECLARATION
30 JUNE 2015

In the Directors' opinion:

– the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
– the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
– the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
– there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Michael Cole
Chairman

Kerr Neilson
Director

Sydney, 20 August 2015

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 Consolidated Statement of Financial Position as at 30 June 2015, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated 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 Platinum Asset Management Limited (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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
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DX 77 Sydney, Australia
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

Auditor's opinion
In our opinion:

(a) the financial report of Platinum 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 2015 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*.

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASSET MANAGEMENT LIMITED

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 38 of the Directors' Report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

S J Smith
Partner

Sydney, 20 August 2015

SUGAR ADDICTION

BREAKING THE CYCLE

DESIGNED AND PRODUCED BY:
3C Creative Agency, *3c.com.au*

WRITTEN BY:
Constance Zhang, *Platinum*

ILLUSTRATED BY:
Andreas Samuelsson, *Agent Molly & Co*

WE ALL HAVE AN ADDICTION TO SWEET-TASTING DOPAMINE-PRODUCING SUGARY TREATS. BUT THE TREND OF INCREASING SUGAR CONSUMPTION IS RENDERED UNSUSTAINABLE BY THE ALARMING RISING RATES OF "DIABESITY". IN THIS REPORT, WE'LL EXPLORE THE BITTERSWEET MIX OF OPPORTUNITIES.

PREFACE

At the first International Conference on Nutrition held in 1992, world leaders collectively pledged "to act in solidarity to ensure that freedom from hunger becomes a reality".

At the second International Conference on Nutrition 22 years later, the commitment changed noticeably – "to eradicate hunger and prevent all forms of malnutrition worldwide, particularly undernourishment, stunting, wasting, underweight **and overweight in children … as well as reverse the rising trends in overweight and obesity and reduce the burden of diet-related non-communicable diseases in all age groups**".

As progress is made on the reduction of poverty and incomes in developing countries rise steadily, malnutrition as a result of excessive consumption of fat, salt and sugar has now become a global issue no less challenging than the threat of famine.

TODAY, AN ESTIMATED ONE-THIRD OF THE WORLD'S POPULATION, SOME 2.1 BILLION PEOPLE, ARE EITHER OVERWEIGHT OR OBESE, WHILE THE NUMBER OF PEOPLE SUFFERING CHRONICALLY FROM HUNGER IS AN ESTIMATED 805 MILLION.

Among the chief culprits for the so-called global obesity epidemic and the sharp increase in the prevalence of diabetes, sugar was at last recognised for what it was, though it had been a suspect since the 1960s.

It is a truth almost universally acknowledged that sugar-sweetened beverages are the easiest means of adding empty calories and gaining weight. But one does not need to be sipping Coca-Cola or chewing on a favourite marzipan bar to fall prey to sugar. From fibre-rich cereal to fat-free yogurt, from old-fashioned ketchup to exotic teriyaki sauce, one finds added sugar in 80% of the foods in our supermarkets, including many of the perceived "healthy" varieties.

But change will occur, even if slowly. Nationwide education campaigns about the health dangers of excessive sugar consumption, more transparent food labelling requirements, and a cautious but visibly increased use of various forms of sugar taxes are beginning to alter consumers' psychology and affect their behaviour.

So, one of the curious minds at Platinum, Constance Zhang, decided to explore some of the opportunities presented by these new trends and put together a sugar-coated note entitled *"Who Wants to Play Candy Crush"*.

The interesting thing we have observed is that while there is an increased offering of "sugar-free" and "low calorie" foods and drinks, they are not "non-sweet-tasting".

PEOPLE ARE NOT ABANDONING THEIR SWEET TOOTH (IF IT WERE ONLY SO EASY TO GIVE UP AN ADDICTION!), BUT ARE INSTEAD LOOKING FOR ALTERNATIVES THAT HAVE A REDUCED IMPACT ON THEIR LIVERS AND WAISTLINES.

There is ample room for product innovation and natural sugar substitutes like stevia appear to be fast overtaking the synthetic incumbents.

I believe Constance has pulled together a fascinating study of *an investment theme*. It will give you a sense of how a theme can sprout various leads that one can follow to develop investment ideas. *Note how multi-faceted this single idea becomes as one teases out whole groups of companies that are affected by the prevalence of this natural craving by consumers.*

I hope this provides you with some interesting ideas for your portfolio or at least has value in relation to one's behaviour – investing and lifestyle!

KERR NEILSON

Managing Director
August 2015

WHO WANTS TO PLAY CANDY CRUSH?

THERE ARE FEW FOOD ADDITIVES AS UNIVERSALLY ADDICTIVE AS SUGAR. THE EXPANSIVE CANE PLANTATIONS IN BRAZIL AND ON THE CARIBBEAN ISLANDS ARE NO LONGER TOILED BY SLAVES IN SHACKLES, BUT YOU AND I AND JUST ABOUT EVERY OTHER CONSUMER IN THE WORLD APPEAR TO HAVE BECOME ENSLAVED BY SUGAR.

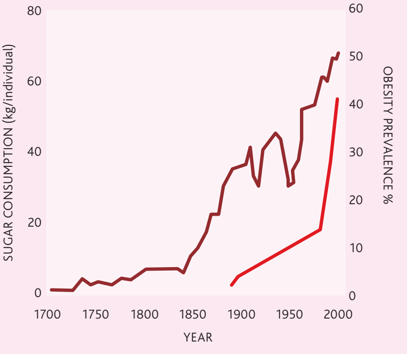
The average Englishman in 1700 consumed just 1.4 kg of the precious spice. By 1800 it had risen to 10 kg[1] and by 1900 annual consumption of sugar was as much as 45 kg per head.[2]

On a world-wide basis, sugar consumption averaged 5 kg per person per year at the beginning of the 20th century.

Today, 24 kg of sugar (including high intensity sweeteners) are consumed per person per year,[3] with average consumption in some developed countries exceeding 60 kg![4]

Our growing sweet tooth has given birth to many corporate giants in the past two centuries.

TOTAL SUGAR INTAKE VS. OBESITY PREVALENCE (1700 TO 2000)



Source: Johnson et al, The American Journal of Clinical Nutrition 2007; Bank of America Merrill Lynch

Leaders in the confectionery and beverages space such as Mondelēz International (formerly Kraft Foods), Hershey and Coca-Cola have amassed fortunes from a variety of sweet-tasting dopamine-producing treats.

However, with growing public awareness of the health dangers that come with excessive sugar consumption, in particular, the steep rise in obesity and diabetes prevalence, will this trend last, and at what socio-economic cost?

WILL CONSUMERS EVENTUALLY EMBRACE A REDUCED-SUGAR DIET AS THEY HAVE GRADUALLY COME TO SHUN CIGARETTE SMOKING?

If so, how will industry adapt to consumers' shifting relationship with sugar and other sweeteners, and what opportunities does it present?

WHERE DOES SUGAR COME FROM?

Sugars are types of carbohydrates. They include monosaccharides which are the simplest sugar compounds (glucose, fructose and galactose) and disaccharides which are formed when two monosaccharides are joined together (sucrose, lactose and maltose). Sucrose or table sugar, for example, is essentially half glucose and half fructose.

Sugar molecules are present in many plants, with canes and beet roots being the two great sources of sucrose.

OF THE 180 MILLION TONNES OF SUGAR PRODUCED WORLDWIDE A YEAR, AROUND 80% COMES FROM CANES WHILE BEET SUGAR ACCOUNTS FOR THE REMAINING 20%.[5]

Canes thrive in tropical and sub-tropical climates and sugar was the first commodity, other than precious metals, shipped to Europe in commercial quantities from the colonies in Central and South Americas.[6]

Today, Brazil produces more than 20% of the world's sugar, with India being the second largest producer at 15%.[7]

The first challenge to sugar canes' dominance came from beet roots. The extraction of sucrose from beet roots was discovered by German chemist Andreas Marggraf in 1747, but it did not become commercialised until the British blockaded sugar imports to continental Europe from the Caribbean during the Napoleonic wars.

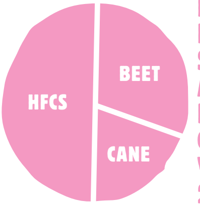
Industrial processes to extract sugar from beets were developed and by 1880 beet had replaced cane as the main source of sugar on the European Continent.

The strategic importance of this temperate crop was well appreciated by the French, Germans and Russians alike and protectionist policies for the beet industry have continued in Europe ever since.

The EU today produces around 50% of the world's beet sugar[8] while Russia and US each produces around 1/8.[9] Beet sugar accounts for around 78% of the total sugar and isoglucose[i] market in Europe, with cane sugar accounting for around 17%, almost the reverse of the cane/beet – 80/20% split on a world total basis.

The status quo may soon be shifting for European cane refineries (e.g. Tate & Lyle) as EU beet producers (e.g. Tereos, Südzucker, Nordzucker) start to enjoy loosened beet quotas and pricing policies from 2017.[10]

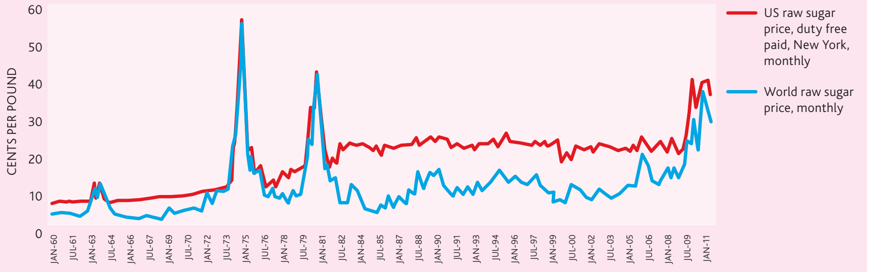
In the US, beets account for around 55% of the total sugar produced while canes account for 45%.



HOWEVER, IF HIGH FRUCTOSE CORN SYRUP (HFCS) IS ADDED TO THE EQUATION, THE BEET/CANE/HFCS SPLIT WOULD BE AROUND 28/22/50%.

i: "Isoglucose", also known as glucose-fructose syrup, accounts for the remaining 5%. The most common type of isoglucose is high fructose corn syrup or "HFCS".

WORLD VS. US SUGAR PRICES (1960 – 2011)



Source: USDA; SugarCane.org.

Like many other countries, the US has long used quotas and tariffs on the production, importation and marketing of sugar to support domestic prices. Its policies also included extending favourable loans to sugar growers and processors.

AS A RESULT, US SUGAR PRICES HAVE TYPICALLY BEEN WELL ABOVE WORLD PRICES.

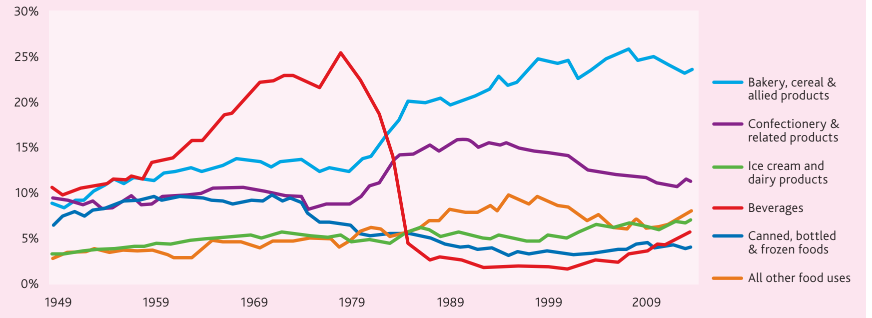
When sugar prices sky-rocketed in the mid-1970s, food and drink manufacturers looked for an alternative, more affordable sweetener, preferably one that was produced locally in the US.

The ideal alternative they found was HFCS. It is one of the products (along with corn starch, ethanol, etc.) derived from the wet milling of corn. Corn starch is first converted to a syrup that is nearly all dextrose. Enzymes are then used to isomerise the dextrose to produce a syrup with 42% fructose and 53% glucose (HFCS-42).

Further processing produces a 55% fructose syrup (HFCS-55) which has a similar level of sweetness to sucrose.

HFCS was rapidly introduced into many processed foods and drinks. Even more appealing than the liquid, syrupy texture of HFCS and its ease of use as an additive, was HFCS' affordability, supported by an abundance of government-subsidised locally-produced corn.

US SUGAR DELIVERIES FOR HUMAN CONSUMPTION BY TYPE OF USER



Source: USDA; Platinum

HFCS' share of the US sweetener market jumped from 5% to 44% between 1975 and 1989.[11] HFCS-55 became the dominant sweetener for the beverages industry in the US and sugar's share dropped sharply.

In 2002, American soft drink manufacturers used 8 billion pounds of HFCS, but only about 200 million pounds of sugar.[12]

The Coca-Cola Company and PepsiCo replaced sugar with HFCS in their US-produced soft drinks – saving hundreds of millions of dollars a year, while the versions produced overseas continued with the original recipes.

HFCS REMAINED LARGELY A US PHENOMENON, WITH 55% OF WORLD TOTAL CONSUMED IN THE US AND MORE THAN 60% PRODUCED THERE.

Consumption of HFCS peaked in 1999 and has since fallen slightly as a result of increasing concerns that its effect on weight gains may be even worse than sugar or sucrose (see below for detail).

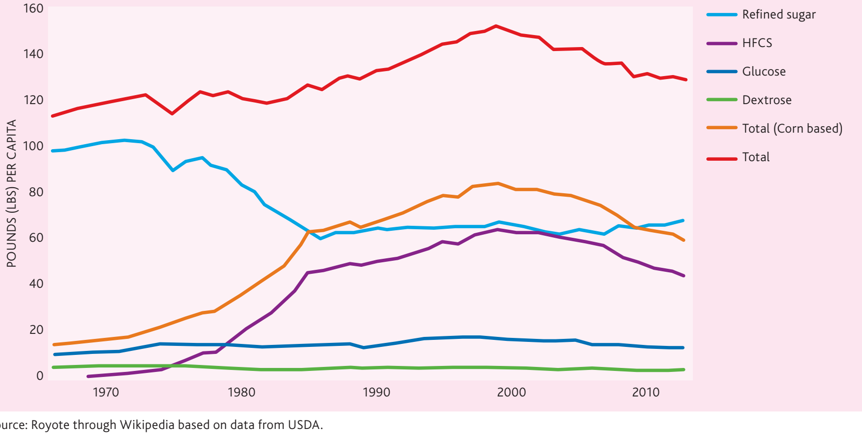
Companies such as Archer Daniels Midland Company, Cargill Inc and Staley (now owned by Tate & Lyle), which enjoyed a golden age in the 70s-90s through innovating with corn sweeteners, are now facing reduced demand as negative publicity around HFCS and soft drinks led the beverages industry to react to changing consumer sentiments a few years ago.

In 2009, PepsiCo introduced three new soft drinks in the US. The marketing campaign for Pepsi Natural, Pepsi Throwback and Mountain Dew Throwback made a point of them being "sweetened with natural sugar, a blend of cane and beet sugars".[14]

In the same year, Dr Pepper also released a "heritage" version of Dr Pepper Soda that was made to the original formula and used beet sugar instead of HFCS.[15]

Companies such as Kraft Foods, Hunt's Ketchup, Sara Lee, Snapple, Gatorade and Starbucks also stopped using HFCS in some or all of their products.

CONSUMPTION OF SUGAR AND CORN-BASED SWEETENERS IN THE US (1966 – 2013)[13] (IN DRY-BASIS POUNDS PER CAPITA)



Source: Royote through Wikipedia based on data from USDA.

HOW CAN SUGAR BE BAD FOR US?

Sugars (and other carbohydrates) provide energy to fuel cells in living organisms.

Glucose is of particular importance to humans as it is the primary fuel for the brain, which uses 10-25% of the whole body's energy.

The brain is in a constant state of metabolic activity – even when one is asleep – and is therefore carbohydrate-dependent.

This natural dependence on sugar as a key source of energy has caused humans to be hooked to sweet tasting things since the time of our hunter-gatherer ancestors.

HOWEVER, RISING PRODUCTION AND FALLING PRICES HAVE LED TO OVERCONSUMPTION IN MOST PARTS OF THE WORLD IN THE LAST CENTURY AND ASSOCIATED HEALTH RISKS HAVE NOW LED SUGAR TO BE REGARDED AS THE "NEW TOBACCO".

An abundance of studies since the 1960s have linked excessive sugar intake to diabetes, hypertension, hypoglycaemia, cardiovascular disease and other health conditions, but early warnings were overshadowed for years by concerns over saturated fat and its impact on cholesterol levels as well as the difficulty to prove a direct causation between sugar and specific diseases.

THE CASE AGAINST SUGAR, HOWEVER, HAS NOW BEEN PROVED BEYOND REASONABLE DOUBT WITH RESPECT TO AT LEAST TWO HEALTH HAZARDS.

After a systematic review of tens of thousands of research papers, the World Health Organisation (WHO) concluded there is "strong evidence" that **excessive intake of free sugars[i] is associated with dental caries (i.e. tooth decays) and unhealthy weight gain (i.e. overweight[ii] and obesity[iii]).[16]**

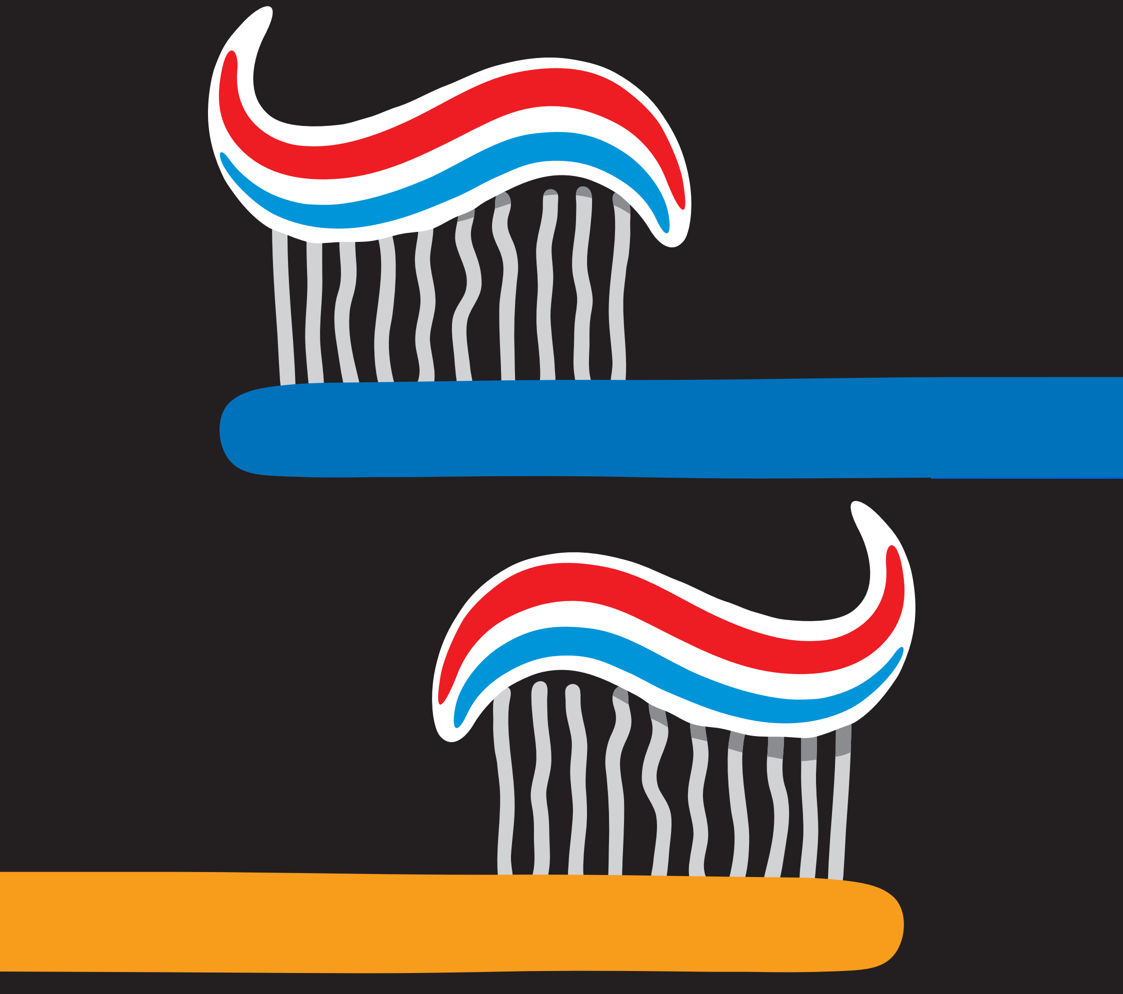
That there is a positive association between the level of free sugars intake and dental caries has been widely accepted.

Research has long shown that the acidity of sweetened drinks and the bacterial fermentation that occurs with sugar consumption can both cause dental erosion.

i: The WHO defines "free sugars" to include all monosaccharides and disaccharides that are added to foods and drinks by the manufacturer, cook or consumer. "Free sugars" include sugars naturally present in honey, syrups, fruit juices and fruit juice concentrates, but not sugars in fresh fruits and vegetables or sugars naturally present in milk.

ii: WHO's definition of "overweight" is a body mass index of 25 or greater.

iii: WHO's definition of "obese" is a body mass index of 30 or greater.



AROUND 68% OF AUSTRALIAN SCHOOL STUDENTS HAVE AT LEAST ONE TOOTH ERODED.[17]

The relationship between sugar and weight gain is not difficult to understand. When carbohydrate is consumed, sugar is absorbed into our bloodstream.

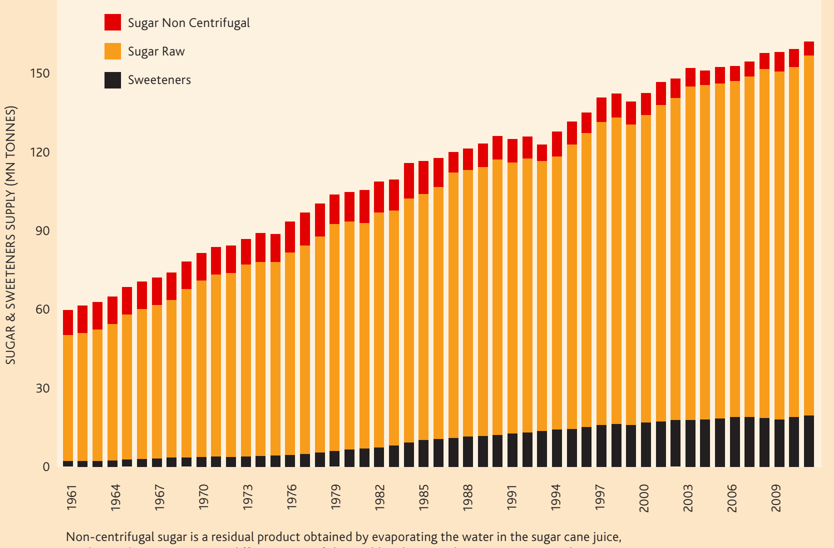
When blood sugar level rises, the pancreas releases insulin which causes the liver to convert excess glucose into glycogen which is then stored in the liver and muscles.

As these are finite spaces, the surplus is converted into fatty acids and stored in fat cells. Fat cells provide infinite storage space as they simply replicate themselves when they reach maximum capacity of fat.

It is true that obesity is an outcome of overall caloric imbalance and that overconsumption of non-sugar carbohydrates would lead to comparable weight gains. However, the palatable quality and addictive effect of sweetened foods and the effortless ways to add caloric intake in liquid form through sweetened beverages make it difficult to exculpate sugar.

Beverages are also the source of HFCS' notoriety. Sweetened beverages are estimated to account for at least 20% of the increase in weight in the US between 1977 and 2007[18] which coincided with the rise of HFCS as the most widely used sweetener in beverages in that country.

GLOBAL SUGAR AND SWEETENERS CONSUMPTION HAS NEARLY TREBLED SINCE THE 1960S



Non-centrifugal sugar is a residual product obtained by evaporating the water in the sugar cane juice, it is known by many names in different parts of the world such as panela, jaggery, muscovado.

Source: FAO; Morgan Stanley Research.

Studies have suggested that the metabolism of fructose, when compared to glucose, can have a greater impact on excessive caloric intake, weight gains and metabolic syndrome because fructose does not stimulate the secretion of insulin or leptin which are signals of the feeling of fullness.[19]

HFCS-sweetened soft drinks provide an extremely easy means of adding extra calories without any offsetting health benefits and without suppressing the appetite to reduce the intake of other food calories.[20]

IT IS THEREFORE IMPOSSIBLE TO DENY A CORRELATION, IF NOT CAUSATION, WHEN THE NUMBER OF OVERWEIGHT AND OBESE INDIVIDUALS MORE THAN DOUBLED FROM 875 MILLION IN 1980 TO 2.1 BILLION IN 2013[21] WHILE GLOBAL SUGAR AND SWEETENER CONSUMPTION INCREASED BY ABOUT 60% OVER THE SAME PERIOD.

The dangers of sugar do not stop with obesity, which is widely acknowledged to be associated with other non-communicable diseases (NCDs).

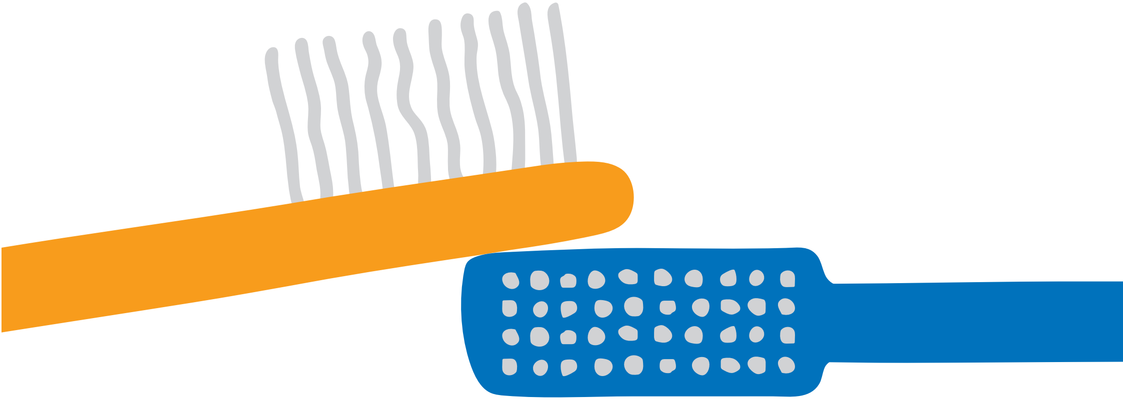
AN OBESE PERSON HAS A 9 TIMES GREATER RISK OF DEVELOPING TYPE 2 DIABETES, MORE THAN 3 TIMES THE RISK FOR HYPERTENSION, 3 TIMES THE RISK FOR COLON CANCER, MORE THAN TWICE THE RISK OF HAVING A HEART ATTACK, A 65% HIGHER RISK OF OSTEOARTHRITIS AND A 33% HIGHER RISK OF A STROKE.[22]

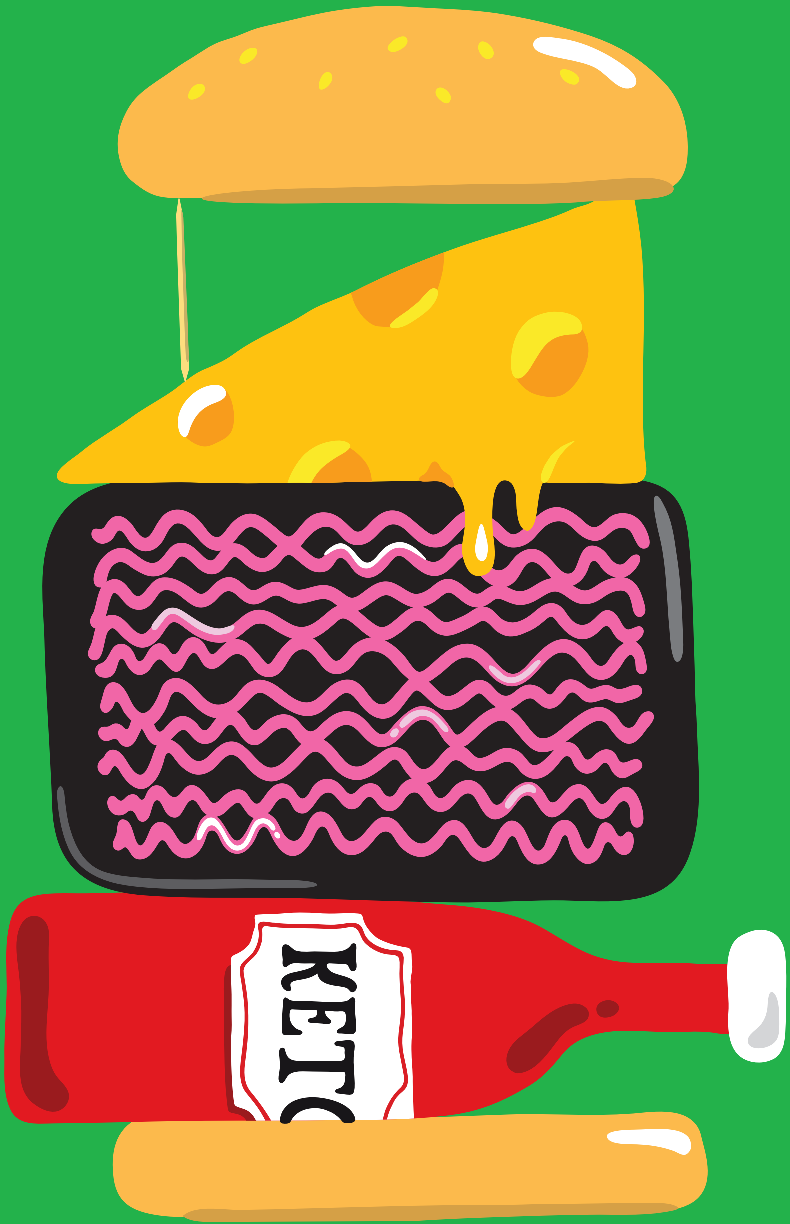
Type 2 diabetes is a condition where blood glucose level becomes too high because the body cannot use insulin to regulate it.

Insulin is released when blood sugar levels are high, but sustained high insulin levels can lead to insulin resistance – when the body's cells no longer respond to it.

80% of Type 2 diabetes sufferers globally are overweight or obese at the time of diagnosis.[23]

The conditions of obesity, insulin resistance, metabolic syndrome and Type 2 diabetes are so closely inter-related that they have come to be collectively referred to as ***"diabesity"***.

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HOW MUCH IS TOO MUCH?

To be fair, sugar is not intrinsically bad for the human body. It starts to pose health dangers when one forgets the golden rule of "all things in moderation".

The WHO recommends that the daily intake of free sugars should be kept below 10% of one's total energy intake and "a further reduction to below 5% per day would provide additional health benefits".[24]

These recommended intake levels include sugars naturally present in honey, syrups, fruit juices and fruit juice concentrates (even though some of them might not be considered "added sugar" according to commercial lingo), but not sugars in fresh fruits, vegetables or milk as "these have not been shown to have adverse effects".

TO GIVE SOME CONTEXT, 10% OF AN ENERGY INTAKE BASED ON AN AVERAGE ADULT DIET OF 8700 KJ (OR 2078 CALORIES), WHICH IS THE STANDARD REQUIRED ON FOOD AND BEVERAGE LABELS IN AUSTRALIA,[25] IS ABOUT 52G (208 CALORIES OR 13 TEASPOONS).

As you can see below, one could easily exceed the recommended daily quota by just having two of these snacks a day.

TO PUT IT IN PERSPECTIVE, LOOK AT THE SUGAR CONTENT OF SOME OF OUR FAVOURITE TREATS:

Food/Beverage	Sugar Content (g)	% of Daily Intake[i]	Energy (Cal)[ii]	% of Daily Intake[iii]
A 35g serving of Kellogg's Crunchy Nut Clusters breakfast cereal	10	11%	143	7%
A standard 200g tub of Ski D'Lite 99% Fat Free Mango Yogurt	28	31%	181	9%
A standard 74g serving of Peters Drumstick Honeycomb Heatwave ice-cream	19	22%	215	10%
A 65g block of Kit Kat chocolate fingers	33	36%	339	16%
A standard 375 mL can of Coca-Cola	40	44%	161	8%
A standard 250 mL can of V Green energy drink	27	29%	117	6%
A standard 500 mL bottle of Lipton Lemon Ice Tea	26	29%	111	5%
A standard 500 mL bottle of The Daily Juice Company Breakfast Juice	46	51%	193	9%

Source: Platinum

i: Based on an average adult diet of 90 grams.

ii: This is the energy content of each food or beverage item as a whole, and is not limited to energy from sugar content only.

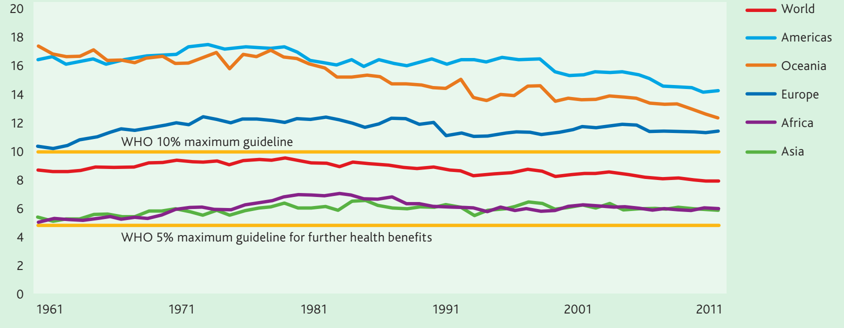
iii: Based on an average adult diet of 8700 kJ or 2078 cal.

Unless you are disciplined enough to limit your breakfast to a 35g serving of cereal and measure out the juice by a small measuring cup, it would not leave you much caloric space for a quiet beer or a glass of wine.

If you think we Australians are alone, or are in a club of minorities along with other developed countries like the US, then you are mistaken.

The alarming fact is that all parts of the world, with the exceptions of Eastern Asia and Western Africa, are already at or above the WHO's recommended levels.[26]

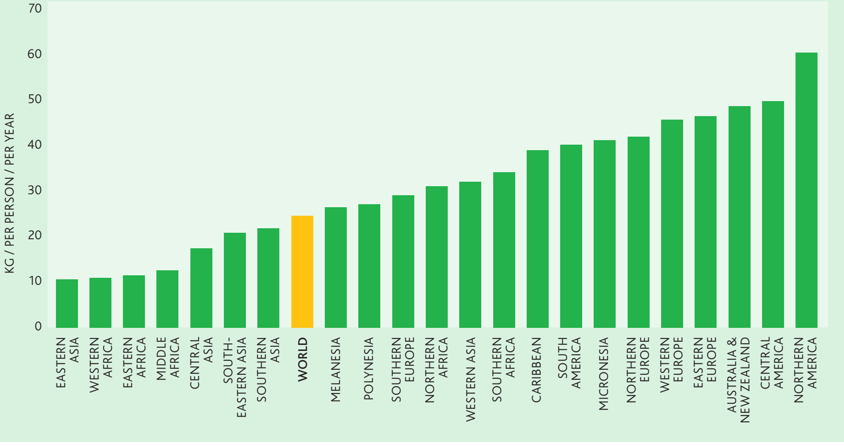
SUGARS AND SWEETENERS AS PERCENTAGE OF TOTAL CALORIE INTAKE – ALL REGIONS EXCEED NEW WHO GUIDELINES



From March 2015, the WHO recommends that maximum sugar daily intake for adults and children should be less than 5% of the daily energy intake for additional health benefits.

Source: FAO; WHO; Morgan Stanley Research.

SUGARS AND SWEETENERS PER CAPITA CONSUMPTION BY REGION



Source: FAO; Morgan Stanley Research.

PUBLIC POLICY RESPONSE IN THE FACE OF GROWING ECONOMIC COSTS

WITH AROUND 40% OF THE WORLD'S POPULATION – SOME 2.1 BILLION – OVERWEIGHT OR OBESE,[27] THE WORLD IS FACING A GROWING BURDEN OF HEALTHCARE COSTS RESULTING FROM DIABESITY AND OTHER NCDs.

The global impact of obesity is currently estimated at US$2.0 trillion or 2.8% of global GDP,[28] which is set to increase in the coming decades.

If diabetes-related global health expenditure amounted to US$612 billion in 2014, how big a burden will this become if, as forecasted by the International Diabetes Federation, the number of diabetes sufferers grows by 53% over the next 20 years and every one in 10 individuals is a diabetic?[29]

IN ADDITION, DIABESITY AND RELATED NCDS WILL ALSO HAVE A HUGE INDIRECT IMPACT ON ECONOMIC GROWTH THROUGH INCREASED MORTALITY[i], LOST PRODUCTIVITY AND REDUCED WORKFORCE (SEE APPENDIX).

Alarming data such as these, particularly the sharp increases in obesity prevalence among children and adolescents (47% from 1980 to 2013), have led governments to begin taking steps to address the diabesity epidemic, part of which are aimed at reducing the consumption of sugar and other high-calorie sweeteners.

Policy responses have typically involved the following measures, all of which are aimed at altering the individual behaviour of consumers:

- **EDUCATION CAMPAIGNS**

  These have been the most popular and least controversial.

  Governments developed various dietary guidelines to educate the public about healthy food choices and portions and what a balanced diet should consist of.

  In addition to general healthy eating campaigns, some groups have also enacted more targeted public awareness campaigns against sugar specifically (e.g. the "Pouring on the Pounds" anti-sugary drinks campaign in New York City in 2009, the "Sweet Enough Network" campaign organised by the Thai Health Foundation in 2003, and a mass media campaign rolled out in Mexico in 2012 to warn consumers about the effects of sweetened soft drinks).

i: Diabetes is currently the 8th most common cause of premature death for NCDs and is expected to move to 5th by 2030.

- **FOOD LABELLING REGULATIONS**

  Governments have progressively adopted and tightened rules on food labelling, but not without resistance from industry lobby groups.

  For example, the US Food and Drug Administration (FDA) is proposing to improve its 20-year old nutrition facts labelling requirements, including by requiring food producers to state the amount of "added sugar" as well as the total sugar amount.

  Those opposing the proposal have criticised it on such untenable grounds as that the general public may not fully understand the nutrition terminology.

  In Australia and New Zealand, the front-of-pack labelling scheme, known as the Health Star Rating system, is voluntary, and some big food companies are still refusing to adopt it (Mondelēz, Mars, PepsiCo, McCain, Goodman Fielder and George Weston Foods).

  After much pressure from consumer advocacy group Choice, Kellogg's has finally started to adopt the scheme for its breakfast cereals in June 2015.

- **RESTRICTIONS ON ADVERTISING**

  Advertising restrictions are viewed as more interventionist and only a few countries (including the UK, Mexico and the Netherlands) have so far enacted laws to regulate advertising of high-calorie food to children.

  However, the encouraging thing is that industry self-regulatory codes now exist in many countries and a growing number of food and beverage companies are making voluntary pledges in relation to better marketing practices.

  As childhood obesity attracts greater attention, major food companies in the EU (Danone, Coca-Cola, PepsiCo, Ferrero, Kellogg's, Mars, Nestlé, Mondelēz, Unilever, etc.) have voluntarily committed to not advertise food and beverage products to children under 12 except for products that meet specific nutrition criteria.[30]

  In the US, 17 companies are participating in the Better Business Bureau's Children's Food and Beverage Advertising Initiative (CFBAI), of which five companies (Coca-Cola, Ferrero, Hershey, Mars and Nestlé) have elected not to engage in advertising directed primarily at children under 12 while the other members pledged that 100% of their child-directed advertising will be for foods that meet CFBAI's nutrition criteria.

- **REGULATIONS ON RETAILING**

  The UK and the Australian governments adopted rules restricting the sale of soft drinks and certain other high calorie foods in schools.

  Such restrictions may gradually gain traction, but are likely to be limited to sales to children and confined to a narrow range of foods and beverages on which there is wide consensus as to their harmful effects and lack of nutritional value.

  If properly enforced, such "school canteen"-styled rules together with reduced child-directed advertising can play a meaningful role in helping children to form healthy eating habits which, once formed at a young age, are likely to stay with the individual for the long-run, if not for life.

It would therefore seem that policies specifically directed at improving children's caloric balance may have a far-reaching effect on reducing diabesity among the next generation and on reversing the long-term trend of the "epidemic".

- **TAXES**

There is always a group of critics that argue that increasing the cost of specific foods is not an effective way to discourage consumption, and that a "sugar tax" would be an unfair burden on low-income families. But evidence points to the contrary.

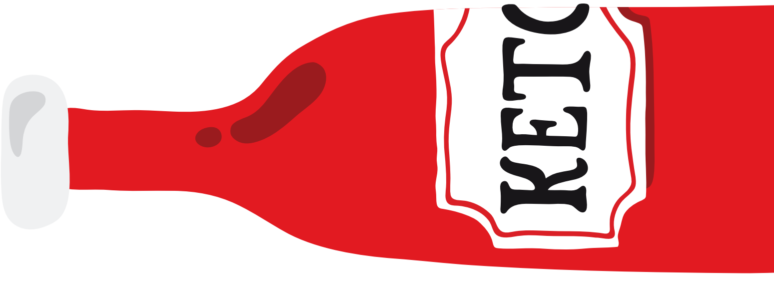
Mexicans consume the highest average quantity of sweetened soft drinks in the world. At 163 litres a year, the average Mexican drinks 40% more than the average American.

It is no surprise that Mexico also has one of the world's highest obesity prevalence (71% of Mexican adults are overweight and 32% are obese).[31]

Following the introduction of a 10% tax on soft drinks in Mexico on 1 January 2014, consumption dropped by an average of 6% through 2014, and by as much as 12% in the last part of the year.

Notably, "the effect was greatest on lower-income households, who cut their purchases by an average of 9% across the 12 months, and by 17% in the later months".[32]

Controversial as taxes are, more than 10 countries (France, Finland, Norway, Hungary, India, etc.) as well as certain States in the US have enacted some form of sugar tax (usually targeting soft drinks and confectionery) as a way to combat growing diabesity (and as a revenue source), much as they have done with tobacco and alcohol.

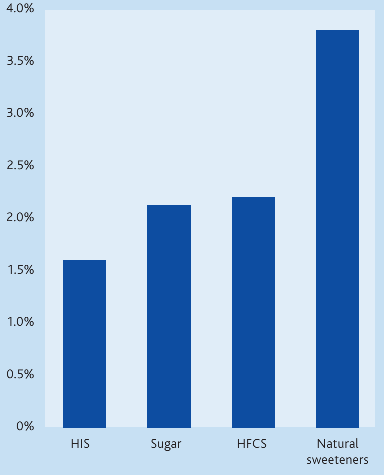


PRIVATE SECTOR INNOVATION AND LOW CALORIE SUGAR SUBSTITUTES

With growing awareness of the links between diabesity and caloric sweeteners, consumers in developed countries, as well as many developing countries, are reducing their sugar and HFCS intake, but they are not foregoing the sweet tooth.

THE SEARCH FOR LOW-CALORIE ALTERNATIVES HAS PRESENTED NEW OPPORTUNITIES FOR MAKERS AND USERS OF HIGH-INTENSITY SWEETENERS (HIS), A MARKET WHICH IS EXPECTED TO APPROACH US$1.9 BILLION IN 2017.[33]

SWEETENER GROWTH RATES (ISO ESTIMATES) 2005-11

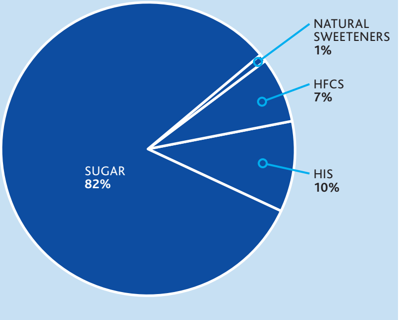


Source: ISO; Credit Suisse AG Research Institute.

Note, however, while it is encouraging to see that growth rate in global sugar consumption has steadied and consumer preferences have begun to change in developed markets, growing global population and rising incomes in developing countries meant that overall sugar consumption is still growing at a little over 2% per year, higher than HIS' growth.

With sugar still dominating the global sweetener market by a wide margin, leading sugar producers such as Cosan and Tereos International remain strong cyclical businesses.

GLOBAL SWEETENER MARKET (ISO ESTIMATES BY VOLUME) 2011



Source: ISO; Credit Suisse AG Research Institute.

ARTIFICIAL LOW-CALORIE SUGAR SUBSTITUTES

MAJOR TYPES OF ARTIFICIAL HIS USED AS FOOD ADDITIVES AND TABLETOP SWEETENERS:

Artificial sweetener name	Relative sweetness to sugar	After taste	Calories (per gram)	Relative price to sugar for same unit of sweetness	Common brands of the sweetener	Product Examples	Top 5 sources (% contribution to intake)
Saccharin (E954)	300	Yes	0	2%	Sweet'N Low, Sweetex, Hermesetas, Sugarine, Sugarella	Saxbys Diet Ginger Beer, Aeroplane Jelly Lite, Weight Watchers fruit in jelly.	Tabletop sweeteners (49%), cordials/fruit drinks (31%), carbonated soft drinks (16%), other desserts/breakfasts (3%), jellies/milk-based puddings (2%).
Cyclamate (E952)	40	Yes	0	6%	Sweet'N Low, Sucaryl	Cottee's No Added Sugar Cordial, Saxbys Diet Ginger Beer, Aeroplane Jelly Lite, Weight Watchers fruit in jelly.	Cordials/fruit drinks (51%), carbonated soft drinks (34%), tabletop sweeteners (4%), jellies/milk-based puddings (4%), other desserts/breakfasts (4%)
Aspartame (E951)	200	No	*4	8%	Equal, Nutrasweet, Hermesetas-Gold, Sugarless	Bundaberg Diet Ginger Beer, Diet Coke, Diet Pepsi, Pepsi Max, Sprite Zero, Nestlé Diet yoghurt, Yoplait Forme yoghurt.	Carbonated soft drinks (66%), tabletop sweeteners (9%), sports, energy and weight management products (7%), flavoured yoghurts/mousses (7%), confectionery (4%).
Acesulfame Potassium or "AceK" (E950)	200	Yes	0	4%	Equal, Sunett, CSR Smart, Hermesetas-Gold, Sugarless	Bundaberg Diet Ginger Beer, Coke Zero, Pepsi Max, Red Bull Sugarfree, Saxbys Diet Ginger Beer, Sprite Zero, V Sugar Free, Cottee's No Added Sugar Cordial, Ribena Light, Dairy Farmers Thick & Creamy Light, Nestlé Diet yoghurt, Yoplait Forme yoghurt.	Carbonated soft drinks (52%), flavoured yoghurts/mousses (22%), cordials/fruit drinks (9%), confectionery (7%), flavoured milks (5%).
Sucralose (E955)	600	No	^0	15%	Splenda	Bundaberg Diet Ginger Beer, Dairy Farmers Thick & Creamy Light, Cottee's No Added Sugar Cordial, Ribena Light, Red Bull Sugar Free, V Sugar Free, Protein Revival milk drink, Atkins Endulge and Advantage Bars.	Carbonated soft drinks (59%), flavoured yoghurts/mousses (13%), cordials/fruit drinks (9%), tabletop sweeteners (5%), sports, energy and weight management products (5%).
Neotame (E961)	8000	No	0	1%	Newtame	Tampico fruit juices, Atkins Endulge Peanut Caramel Cluster Bars.	N/A

* Sugar and HFCS also have 4 calories per gram, but the high intensity of sweetness of Aspartame means reduced quantity in sweetened products, and hence less calories.

^ Sucralose itself has no calories, but the bulking agent gives the end product 3 calories per gram.

Source: Sugar-and-Sweetener-Guide; Choice; Healthier Workplace WA; CCMI International; Bank of America Merrill Lynch; Platinum.

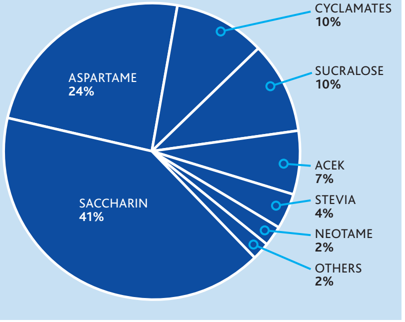
While taste, mouth feel, functions as a preservative and bulking agent are all important considerations for the HIS business, safety issues, whether real or perceived, have been the key factor affecting the success of the industry. Most of the artificial HIS mentioned above have had a chequered history of medical and legal controversy.

Aspartame's lack of aftertaste helped it to replace Saccharin as the main sweetener used in diet soft drinks and many confectionery in the 80s, but the chemical's side effects have increasingly come under the spotlight in recent years and many now consider it the worst of the commonly used artificial HIS.

Unlike most other artificial HIS, Aspartame is fully metabolised by the body and is broken down into aspartic acid, phenylalanine and methanol, which some claim have an effect on the brain and nervous system and can be toxic in high doses.[34]

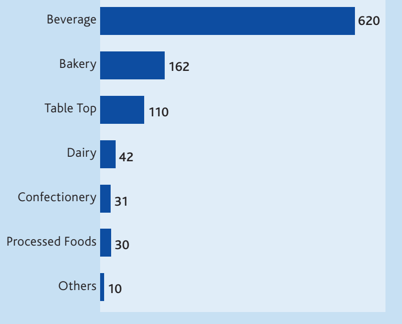
ASPARTAME'S NEGATIVE PUBLICITY ALLOWED SUCRALOSE – A HIS THAT CLAIMS TO BE "MADE FROM SUGAR, SO IT TASTES LIKE SUGAR"[i] – TO TAKE SOME OF ITS MARKET SHARE.

HIS MARKET SHARE BY VOLUME (WHITE SUGAR EQUIVALENT)



Source: ISO; Credit Suisse AG Research Institute.

GLOBAL HIS MARKET BY END USE

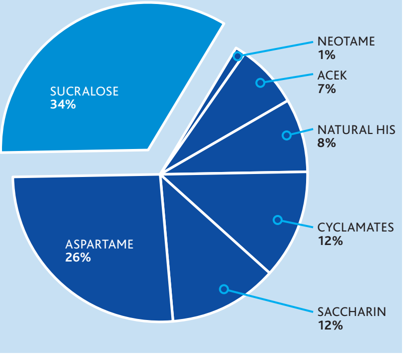


Source: LMC; Cosan Ltd.

PepsiCo, for example, announced in April 2015 that it would be replacing Aspartame with Sucralose for most of its diet drinks in the US,[35] but both Diet Coke and Coke Zero still use a combination of Aspartame and AceK, at least in Australia.[36]

Health warnings for Aspartame were also a catalyst for Merisant Company's Equal brand to diversify from its original recipe of Aspartame and AceK and add Sucralose and Saccharin varieties to its HIS offering.

HIS MARKET SHARE BY VALUE (GLOBAL TOTAL: USD 1.2 BILLION)



Source: ISO; Credit Suisse AG Research Institute.

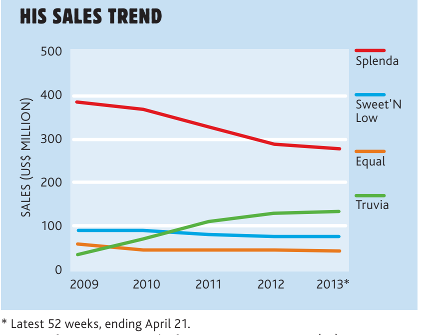
i Sucralose's molecular structure is a modified version of sucrose, with the three oxygen-hydrogen groups in the sucrose molecule replaced with three chlorine atoms through processing. Tate & Lyle marketed Splenda with the slogan "Splenda is made from sugar, so it tastes like sugar". French courts recently held the slogan misleading while in the US the case reached settlement.

Tate & Lyle no longer has a monopoly on Sucralose following a loss in patent suits against several Chinese manufacturers and US distributors in 2009, but the Splenda brand still dominates supply with an 80% Sucralose market share.

The development of Neotame as a derivative from Aspartame by The NutraSweet Company also marked a shift towards greater industry interest in the HIS space – starting with Saccharin in 1878, all the other HIS listed above were discovered by accident in laboratories when the scientist was researching coal tar derivatives, pesticides or other chemicals for medical application.

Neotame's extreme intensity (8000 – 13,000 times sweeter than sugar), low relative cost (1% the cost of sugar and 3% the cost of HFCS), and the fact that it is the only FDA-approved synthetic HIS with a "Safe" rating by the Centre for Science in the Public Interest (US), made it the fastest growing artificial HIS in the market.

With the US patent expired in July 2015, generic versions may soon be available, and more and more food and beverage manufacturers may switch to Neotame for their low-calorie product range.



* Latest 52 weeks, ending April 21.
Source: Infoscan Reviews and Information Resources, Inc. (IRI).

Consumers may be making the switch to HIS-sweetened food and beverages for their reduced calories, but there is an added cost advantage for the manufacturers.

WHILE ARTIFICIAL HIS COST ONLY A FRACTION OF THE PRICE OF SUGAR FOR THE SAME UNIT OF SWEETNESS, RETAIL PRICES OF "DIET" DRINKS AND THE "ORIGINAL" CANE OR BEET SUGAR VARIETIES USUALLY COST ABOUT THE SAME.

It would appear that manufacturers are not passing much of the cost savings onto consumers.

NATURAL LOW-CALORIE SUGAR SUBSTITUTES

Artificial HIS have been in the market for decades, but safety concerns (whether or not backed by solid evidence) as well as inferior mouth feel have limited their popularity (growth has been slower than sugar and HFCS).

Although they remain legal and are declared safe by regulators in various countries, the trend towards "natural diet" and "natural living" in the past two decades has accelerated the growth of natural HIS such as stevia and monk fruit at a cost to artificial HIS' market shares.

Stevia Rebaudiana is a South American plant. Its leaves have been used as a sweetener by natives for hundreds of years. The Steviol Glycoside compounds extracted from the leaves are up to 300 times sweeter than sugar.

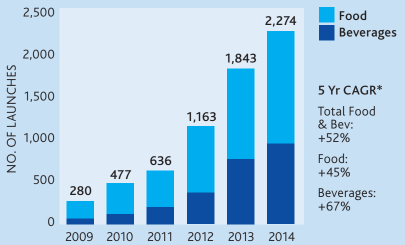
Not only does stevia contain zero calorie and zero glycaemic, it has also been reported to have a beneficial effect on regulating blood sugar levels and is therefore well-suited to diabetes sufferers.

Stevia-based sweeteners first became commercialised in the 1970s by Japanese company Morita Kagaku Kogyo. It developed an integrated system from cultivation to extraction and refinement, and was the first to create sweeteners based on Rebaudioside A (Reb A or Rebiana), one particular Steviol Glycoside. Rebiana replaced artificial HIS in many low calorie food and beverage products in Japan and achieved a 40% market share.

In the US, stevia faced much more resistance and was banned in the 90s before the FDA finally declaring Reb A "Generally Recognised As Safe (GRAS)" in 2008 (with the EU following suit in 2011).

Stevia-based products took off rapidly after that, experiencing a 400% increase globally in 2008 – 2012.[37]

GLOBAL FOOD & BEVERAGE LAUNCHES WITH STEVIA



*CAGR: Compound Annual Growth Rate.
Source: Mintel; PureCircle.

ZENITH INTERNATIONAL ESTIMATES THAT THE GLOBAL STEVIA MARKET WILL REACH 7,150 TONNES BY 2017[38] WHILE THE WHO ESTIMATES STEVIA WILL REPLACE 20% OF THE US$50 BILLION GLOBAL SUGAR MARKET.

TOP 10 CATEGORIES: NUMBER OF GLOBAL STEVIA LAUNCHES 2014

		No. of launches	% of total
1	Snacks	398	18%
2	Other Beverages	224	10%
3	Juice Drinks	223	10%
4	Dairy	218	10%
5	Sweeteners and Sugar	138	6%
6	Carbonated Soft Drinks	126	6%
7	Bakery	125	5%
8	Ready-to-Drink Beverages	123	5%
9	Sugar and Gum Confectionery	97	4%
10	Hot Beverages	94	4%

Source: Mintel; PureCircle.

The biggest hype in the beverages aisle of Australian supermarkets this year was probably the arrival of Coca-Cola Life, sweetened with E960 or Steviol Glycoside.

No one could have missed the stacks of green cans with their accompanying signs of "35% reduced sugar & kilojoules".

A stevia-sweetened, "30% less sugar" version of Pepsi NEXT is also being rolled out in crisp green cans in select countries (Australia, New Zealand, Canada, etc.).

Be careful now. There is a trick. These new mid-calorie range soft drinks contain both sugar and stevia.

This may be due to stevia's liquorice-like aftertaste. According to Tereos PureCircle Solutions, a major supplier of stevia-based sweeteners, out of the 604 new products containing stevia extracts launched in 2010, 60% still contained sugar,[39] and many food manufacturers continue to experiment and search for recipes that hit the right balance between reduced calories and uncompromised mouth feel.

More broadly, much R&D is being undertaken throughout the supply chain, from plant breeding and cultivation to extraction and purification, to product formulation and marketing.[40]

Start-ups such as Stevia Corp and Stevia First Corporation are investing heavily in R&D and IP acquisition to improve both yield and leaf quality.

Approximately 70,000 – 100,000 tonnes of stevia leaf were harvested in 2010, with most commercial stevia farming (estimated at 90%) taking place in China.

Leaf accounts for nearly 80% of refined stevia product cost. There is significant demand for agronomic and farm management expertise to develop high yield breeds, establish new plantations and scale leaf production.

IN THE PRODUCT FORMULATION AND DISTRIBUTION SEGMENT, THE BIGGEST SOFT DRINK COMPANIES AND THE MAJOR ARTIFICIAL HIS PRODUCERS HAVE BEEN ACTIVE LEADERS. THE DOMINANT STEVIA BRANDS IN THE MARKET ARE:

- **"TRUVIA"** – developed and marketed by Cargill Inc (privately-owned agribusiness giant and a top producer of HFCS) jointly with Coca-Cola, the sweetener is made from Reb A and Erythritol (a sugar alcohol found in small concentrations in fruits);
- **"STEVIA IN THE RAW"** – manufactured and distributed by Cumberland Packing Corp (which also owns Sweet'N Low);
- **"PURE VIA"** – another formulation developed by the Whole Earth Sweetener Company (a wholly owned subsidiary of Merisant, owner of Equal) in partnership with PepsiCo using Reb A, dextrose, etc.

The extraction and purification segment is dominated by Pure Circle Limited which has a vertically integrated supply chain with control "from leaf through production to end customer relationship and formulation support".[41]

The company's Stevia 3.0 portfolio now comprises eight sweeteners and four flavour ingredients. Reb M, a new zero-calorie sweetener from the stevia leaf jointly developed by PureCircle and Coca-Cola, was granted GRAS status by the FDA in 2013.

PureCircle currently supplies more than 90% of the high purity stevia extract in the US market (excluding the table top sweetener category).[42] Its sales increased by 37% in volume and 44% by value from FY13 to FY14 while gross margin rose by 106%.

PureCircle also has joint ventures with Nordzucker AG and Tereos, the world's second and third largest sugar producers respectively, to produce and distribute stevia extracts and sweeteners as well as stevia-sucrose blended sweeteners in the European and Brazilian markets.

The joint ventures, however, do not yet appear to account for a significant portion of the businesses of the two sugar giants.

GLG Life Tech is another vertically integrated producer of stevia extract with China-based plantations, processing facilities, as well as R&D centres.

In 2008 it secured a 10 year contract to supply Cargill with 80% of its stevia needs for the first five years. The relationship, however, broke down over time. GLG's stock price fell from $11 to less than $1 in 2011 when the Cargill contract was renegotiated and GLG effectively lost its biggest customer.

The company appears to be slowly recovering and announced two major developments in 2014 from its patented and proprietary breeding programs.

The "Reb C Gold seedling" and the "Super RA" variety are new strains of leaf that contain high concentrations of the sweet compounds and are expected to significantly lower the cost of production. The company's revenue is showing improvements, though it still has substantial debts and remains loss-making.

Interestingly, GLG decided in 2014 to diversify from stevia and ventured into the monk fruit extract market.

Monk fruit (or Luo Han Guo) is native to Guangxi Province in Southern China. Having been used to treat coughs and other ailments in Chinese medicine for hundreds of years, the fruit has only started to be commercially produced as a natural high-intensity sweetener in the past few years.

The sweetness of monk fruit comes from Mogrosides which make up only around 1% of the fruit by weight, but are about 300 times as sweet as sugar.

In addition to containing no calorie, it also has little aftertaste. However, monk fruit has not yet become widely available as a result of its being twice as expensive as stevia and not having obtained regulatory approval in Europe (it has recently been approved in the US by FDA, including for GLG's Mogroside V products).

MONK FRUIT GROWS IN VERY SPECIFIC CLIMATIC CONDITIONS ONLY. THREE COUNTIES IN GUANGXI PROVINCE ACCOUNT FOR SOME 90% OF THE VERY LIMITED GLOBAL OUTPUT.

The better known brands in this nascent market include Tate & Lyle's "Purefruit", "Monk Fruit In the Raw" by Cumberland Packing Corp and the Japanese brand "Lakanto".

The largest monk fruit grower and supplier is Guilin GFS Monk Fruit Corp (MFC), a Sino-Foreign joint venture founded in 2004 by a Chinese entrepreneur and New Zealand company BioVittoria Ltd.

MFC claims to have a 70% market share for the supply of processed monk fruit ingredients. It entered into a five year arrangement with Tate & Lyle in 2010 under which MFC granted exclusive global sales and distribution rights for its monk fruit extract to Tate & Lyle and the latter would develop Purefruit through sales, research and applications.

The relationship was further cemented with Tate & Lyle's acquisition of a 12% equity interest in MFC in 2011.[43]

Mogroside-based sweetener can be found in more than 1000 products currently, including Nestle's Skinny Cow Creamy Iced Coffee range, Yoplait Yogurt and Juice, Hubert's Diet Lemonade, etc.

According to MFC, other global food and beverage companies such as Coca-Cola, PepsiCo, General Mills and Kellogg's are all working on products sweetened with monk fruit extract.

BEYOND SUGAR, COKE AND STEVIA

We have in this paper focused on the changing fortunes of sugar and other sweeteners, but rising rates of obesity and diabetes also present enormous opportunities outside of the food and beverage industry.

AN OBVIOUS BENEFICIARY IS THE PHARMACEUTICALS AND HEALTHCARE SECTOR. MORGAN STANLEY ESTIMATES THAT DIABETES IS A $35 BILLION MARKET GLOBALLY AND IS EXPECTED TO REACH $50 BILLION BY 2020.

Medication to treat or manage diabetes, a chronic disease, ranges from oral anti-diabetics (OAD), the glucagon-like peptide 1 (GLP-1) class of drugs and insulin, the largest segment in value.

Leading producers of insulin include Novo Nordisk (the diabetes theme accounts for approximately 80% of group sales), Sanofi (22%) and Eli Lilly.

Merck & Co, AstraZeneca, Eli Lilly, Novartis and Takeda are producers of OAD, a segment estimated to grow at a high single digit pace in the coming decade due to the continuous innovation with new classes of drugs.

Mitsubishi Tanabe is also expected to enjoy rising profits from growth in royalties for Invokana, an OAD in the SGLT2 inhibitor class (diabetes products are estimated to contribute as much as 30% of profits in 2018).

Ono Pharmaceutical also has around 25% in diabetes-related sales, predominantly from Glactiv, an OAD in the DPP4 inhibitor class.

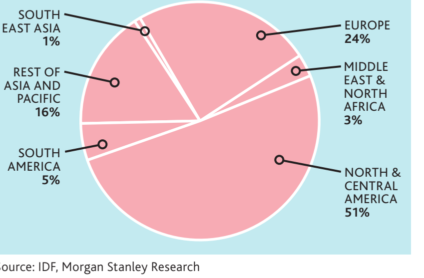
One of the reasons that diabetes is such a serious and costly condition is its numerous complications. Persistent high blood glucose levels can cause irreversible damage to the body's organs and diabetes is the most common cause of kidney failure (more than 40%).

When diabetes sufferers experience kidney failure, they must undergo either dialysis or a kidney transplant. Dialysis is a form of kidney replacement therapy through cleaning the blood with an artificial kidney.

In the dialysis space, Fresenius Medical Care is the current market leader with 3100 dialysis clinics and 40 production sites worldwide. The company stands to save many more lives and improve the quality of life for many of its patients in the coming years.

There is enormous demand for diabetes treatment in developing countries. More than 80% of the global expenditures were made in the world's richest countries while 77% of the world's diabetes sufferers live in low and middle income countries.

REGIONAL SHARES OF DIABETES-RELATED HEALTH EXPENDITURES, 2014



Source: IDF, Morgan Stanley Research

This represents a significant business opportunity for pharmaceutical and medical technology companies that are willing and able to develop the right business model and cost structure to meet the needs of diabetes patients in those developing countries.

Obesity opens up an even greater number of possibilities as there is much unmet medical need. Currently, there is only a short list of FDA-approved prescription weight-loss drugs. Novo Nordisk's Saxenda, an injectable medicine, was the latest offering in addition to Takeda/Orexigen's Contrave, Arena/Eisai's Belviq, and Vivus' Qsymia, which are pills.

These companies may be doing themselves a disservice by pricing their drugs too aggressively.

By 2018, these drugs are only expected to generate sales ranging US$100-210 million,[44] which can hardly be considered success stories in the pharmaceutical world.

Non-prescription weight-loss products and services, on the other hand, are a fast growing market – Americans spent US$28 billion on dietary supplements (not limited to weight-loss products) in 2010 and US$40 billion on weight-loss programs and products.[45]

GNC and Glanbia are among the companies with a high exposure to the US$35 billion vitamins, minerals and supplements (VMS) industry, which has been growing at a compound annual rate of 5.8% over the past 10 years and is estimated to grow at 7% per year from 2010-20E.[46]

Commercial weight-loss centres such as Jenny Craig and Weight Watchers as well as gym facility chains such as Fitness First are also expected to continue to grow with significant opportunities in developing markets.

HERE IS WHERE WE WILL END OUR SHORT JOURNEY IN THE CANDY FACTORY. THE TREND OF INCREASING EXCESSIVE CONSUMPTION OF SUGAR AND HFCS OVER THE PAST FEW DECADES HAD CAUSED A GROWING DIABESITY EPIDEMIC ON A GLOBAL SCALE.

In numerous countries, however, stakeholders have been alerted to the ill effects of such excesses and collective action to reverse the upward trend of diabesity is well under way.

A combination of policy and education initiatives on the one hand and product innovation on the other is beginning to produce results in some parts of the world (Mexico being an excellent example showing that positive change can occur).

There are big opportunities for food and drink producers as the natural HIS segment of the market is still at a nascent stage. It is also imperative that the healthcare industry rise to the challenge and support the growing number of diabesity sufferers. It will be a bittersweet mix for market players.

AS FOR THE MORAL OF THE STORY – SUGAR AND THE STOCK MARKET REQUIRE THE SAME KIND OF DISCIPLINE. WE MUST STRIVE TO STAND RESOLUTE IN THE FACE OF TEMPTATION AND PLEASE DO NOT SUCCUMB TO YOUR SWEET TOOTH TOO OFTEN.

APPENDIX HOW MUCH WILL DIABESITY COST OUR ECONOMY?

"DIABETES IS NOT JUST A HEALTH ISSUE AND A THREAT TO OUR HEALTH SYSTEM AND SPIRALLING COSTS – IT IS MORE AND MORE AN ECONOMIC AND PRODUCTIVITY ISSUE THREATENING …BUSINESS SECTORS."[47]

A report commissioned by Diabetes Australia places the productivity impact of diabetes in Australia currently at $5.6 billion per year while the total estimated cost of diabetes in Australia in 2013 was $14.6 billion (including direct healthcare, direct non-healthcare and social costs).[48]

To gauge the indirect costs of excessive sugar consumption and related diabesity issues, Morgan Stanley Research conducted a series of simulated GDP and productivity trajectories for selected countries. While the multitude of variables involved gives the outcomes a high degree of uncertainty, the study nevertheless provides a valuable reference on the broader, long-term economic impact of sugar-related health problems.

The starting point of Morgan Stanley's study is the OECD's 2014 economic forecasts for 2015-2035, which do not take into account the impact of sugar consumption on health and assume on average the same output per unit of labour across the economy.

The study adjusts the OECD forecasts by varying output per unit of labour based on categories of "healthy", "diabetic" and "obese" and building in productivity assumptions of "absentees", "presentees"[i] and "leavers"[ii] to the latter two categories, thereby accounting for the impact of sugar consumption on health and hence productivity. The researchers then ran the following three simulation scenarios:

- **BASE CASE SUGAR SCENARIO** – assuming no change in the propensity to consume sugar to current levels and no changes in prices;
- **HIGH SUGAR SCENARIO** – assuming an increase of sugar preference of 5 kg per person cumulatively over the 20 year projection-horizon (equating to an increase of 50kcal per person per day) and a corresponding increase in diabetes and obesity prevalence rates (150kcal/person/day increase in sugar availability translates to a 1.1% increase in diabetes prevalence, and 20kcal/day lead to a 1 kg increase in body weight over 3 years); and

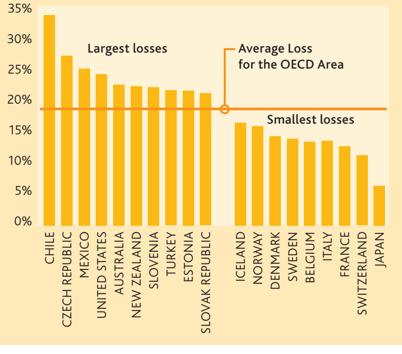
i: "Presenteeism" refers to employees who go to work even though they are sick.
ii: Those who leave the labour market because they are too ill to work.

- **LOW SUGAR SCENARIO** – assuming a decrease in sugar consumption of 10 kg person cumulatively over the same 20 year period (equating to a reduction of 100kcal per person per day) and a corresponding reduction in diabetes and obesity prevalence rates.

The results of these simulations show that in the Base Case Sugar Scenario:

- GDP growth averages 1.8% per annum in the OECD over the 20 year period, compared to the OECD forecast of 2.3% (i.e. a cumulative loss of 18.2 percentage points); and
- Productivity growth averages 1.5% per annum in the OECD over the next 20 years, compared to the OECD forecast of 1.9% (i.e. a cumulative loss of 11.7 percentage points).

BASE CASE SUGAR: TOP AND BOTTOM TEN COUNTRIES RANKED BY CUMULATIVE LOSS OF REAL GDP VS OECD LT PROJECTIONS

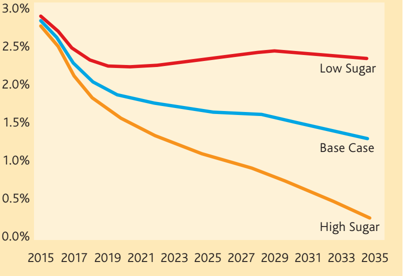


Note: the data shown are percentage points. LT long-term.
Source: Morgan Stanley Research estimates.

The countries that face the highest output loss are those with high rates of both diabetes and obesity (e.g. Chile, the US and Australia), while countries with relatively low diabetes and obesity prevalence (e.g. Japan and France) face the least sugar consumption-related loss of productivity.

The potential impact of sugar consumption and diabesity on economic growth is even more startling when the three different simulation scenarios are compared side by side:

OECD AREA ANNUAL REAL GDP GROWTH ADJUSTED FOR THE THREE SUGAR SCENARIOS



Source: OECD; Morgan Stanley Research estimates.

In the High Sugar Scenario, GDP growth in the OECD area would slow to 1.3% per year on average, approaching just 0.3% towards the end of the 20 year period, while diabetes rate would increase from 11.6% in the Base Case Scenario to 12.0% and obesity rate would nearly double to 60%.

In contrast, the Low Sugar Scenario would see a drop in diabetes rate to 10.9% and the obesity rate would fall towards zero, which would translate to an average GDP growth of 2.2% per annum over the 20 year period.

THIS SERIES OF SIMULATED PROJECTIONS INDICATE THAT, ALL ELSE BEING EQUAL, DIABETES AND OBESITY PREVALENCE CAN HAVE A SIGNIFICANT IMPACT ON PRODUCTIVITY AND ECONOMIC GROWTH OVER THE LONG RUN.

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