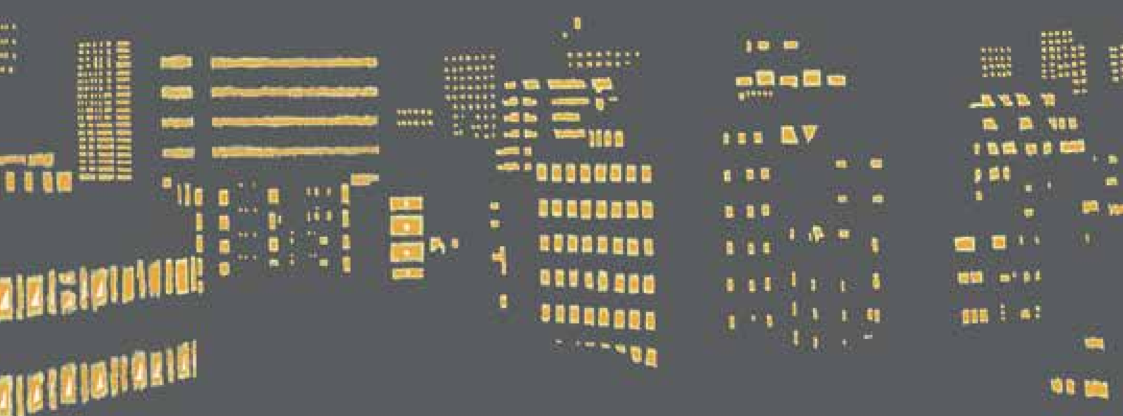
Platinum®
ASIA INVESTMENTS LIMITED

ANNUAL REPORT 2016

PLATINUM ASIA INVESTMENTS LIMITED

ABN 13 606 647 358



DIRECTORS
Bruce Coleman
Ian Hunter
Malcolm Halstead

COMPANY SECRETARY
Andrew Stannard (from 29 July 2016)

INVESTMENT MANAGER
Platinum Investment Management Limited
(trading as Platinum Asset Management®)

SHAREHOLDER LIAISON
Liz Norman

REGISTERED OFFICE
Level 8, 7 Macquarie Place
Sydney NSW 2000
Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500
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SHARE REGISTRAR
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Phone + 61 1300 554 474
Fax +61 2 9287 0303

AUDITOR AND TAXATION ADVISOR
PricewaterhouseCoopers

SECURITIES EXCHANGE LISTING
The securities of Platinum Asia Investments Limited are listed on the Australian Securities Exchange and the ASX codes are:
Shares: **PAI**
Options: **PAIO**

WEBSITE
www.platinum.com.au/our-funds/platinum-asia-investments-limited/

CORPORATE GOVERNANCE STATEMENT
www.platinum.com.au/documents/shareholders/pai_corp_gov.pdf

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CHAIRMAN'S REPORT

Introduction
I welcome you as fellow shareholders of Platinum Asia Investments Limited ("PAI") and thank you for your support.

The Company was established to provide investors with a convenient means of gaining exposure to the fast growing equities markets within the Asian Region ex Japan and to take advantage of the investment opportunities on offer in those countries which are undergoing deep transformation.

Initial Public Offering (IPO)
During the year, the Company completed its Initial Public Offering ("IPO") in accordance with the replacement prospectus dated 5 August 2015. The Company raised $292,869,646 by the issue of 292,869,646 ordinary shares and 292,869,646 attached options for nil consideration exercisable at $1.00 each on or before 15 May 2017. As at 30 June 2016, 307,600 options have been exercised and 307,600 additional shares have been issued.

The Company was admitted to the official list of ASX on 17 September 2015. The official quotation of its securities commenced on 21 September 2015. The first 50% of the capital raised was invested within three days and another 24% was invested within three months. As at 30 June 2016, the portfolio was 86% invested, with the remaining 14% held in cash. This leaves some room to take advantage of any further opportunities that may arise to add to our existing holdings or take new positions.

Investment Objective
The Portfolio is actively managed with the objective of delivering long-term capital growth through investing primarily in undervalued listed securities of companies within Asia ex Japan.

The portfolio is selected by our Investment Manager, Platinum Investment Management Limited (Platinum). Platinum is one of Australia's mostly highly regarded fund managers with an excellent long-term investment record both in Asia and in the rest of the world.

The Company aims to achieve net returns over a five year plus investment horizon that are in excess of the benchmark.

Investment Performance
For the period from inception to 30 June 2016, the Company's Net Asset Value (NAV) decreased by 4.51% pre-tax, after fees and expenses, whereas the benchmark Morgan Stanley All Country Asia ex Japan Net Index (MSCI) in $A terms remained flat.

For the six months to 30 June 2016, the pre-tax return of the Company was negative 3.14%, after fees and expenses, as compared to the benchmark MSCI return which remained flat.

The underperformance was primarily caused by the Investment Manager being very cautious in deploying investors' capital, given that Asian markets have been so turbulent.

The volatile market environment was, and remains, a key consideration in building and managing the portfolio.

Shareholder Returns

For the period since inception to 30 June 2016, the Company made a statutory pre-tax operating loss of $12.8 million and a post-tax operating loss of $9.0 million. As previously noted, the Investment Manager has experienced a difficult market environment since the launch of PAI, characterised by uncertain and choppy markets.

However, it should be noted that, under Australian Accounting Standards, realised profits and losses are added to or reduced by changes in the market value of the Company's total assets. This can lead to large variations in reported profits.

As a consequence, the Directors believe that over time pre-tax NAV, after fees and expenses, is a better measure of performance of the Company over the long term than reported profits.

Dividends

As the Company has only been trading since September 2015, no dividend has been paid or declared to the date of this Chairman's Report. The Company intends to build up its pool of available franking credits and realised profits and pay dividends to shareholders in the future.

Exercise of Options

Shareholders who acquired shares in the Company under the Initial Public Offer are reminded they also received one option for every one share that was acquired. These options are exercisable at $1.00 and shareholders have until 15 May 2017 to exercise them.

Corporate Governance

As shareholders would be aware from the Prospectus, PAI's funds are ultimately managed by Platinum through two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Agreement.

Since the launch of the Company, the Non-Executive Directors are pleased to report they have closely monitored the performance of the Investment Manager and its adherence to the agreements with the full and transparent co-operation of Platinum and its management team. We are accordingly confident in the integrity and reporting of the Company's financial results to shareholders.

CHAIRMAN'S REPORT
CONTINUED

Outlook for 2016-2017
As highlighted recently by our Investment Manager:

"Markets have been volatile, as economic restructuring, especially in a low growth world, has proven to be a rocky path.

A stabilising property market and, indeed, improving activity in the construction sector should provide some stability to China's economy in the months ahead. Capacity closure is a much needed step that the authorities appear resolute to undertake. The Indian story is panning out largely as envisaged and the likelihood of further interest rate cuts has increased, though current levels of enthusiasm may temper in the near term.

The fact that interest rates in most parts of Asia are still well above zero (as opposed to those in much of the developed world) portends superior growth and investment returns. Companies in the region with sustainable competitive positions will likely prove to be worthwhile investments over the long run. Our view is that the direction taken by policymakers in the region is generally positive. As many companies in the Asian market are trading on attractive valuations, and a cheap starting valuation is a good indicator of future returns, we will continue to deploy capital when suitable opportunities arise."

Finally
I wish to express my appreciation of the work done by Joseph Lai and the investment team over the last year and to thank Kerr Neilson, Andrew Clifford and the broader Platinum team, for the successful launch of the Company.

Bruce Coleman
Chairman

17 August 2016

FINANCIAL STATEMENTS 2016

PLATINUM ASIA INVESTMENTS LIMITED

General information
The financial statements were authorised for issue, in accordance with a resolution of Directors, on 17 August 2016. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION
30 JUNE 2016

The shareholder information set out below was applicable as at 12 August 2016.

Distribution of Equity Securities and Option Holders

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

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	64
1,001 to 5,000	1,504
5,001 to 10,000	1,475
10,001 to 100,000	4,196
100,001 and over	245
Total	7,484
Holding less than a marketable parcel (less than $500)	20

Analysis of number of option holders by size of holding:

	NUMBER OF HOLDERS OF OPTIONS
1 to 1,000	4
1,001 to 5,000	1,396
5,001 to 10,000	1,219
10,001 to 100,000	3,352
100,001 and over	284
Total	6,255
Holding less than a marketable parcel (less than $500)	4,772

Equity Security Holders

Twenty largest quoted equity security holders

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

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Platinum Investment Management Limited	50,000,000	17.05
Citicorp Nominees Pty Limited	9,729,664	3.32
Avanteos Investments Limited	4,125,000	1.41
Moya Pty Limited	2,500,000	0.85
HSBC Custody Nominees (Australia) Limited	2,463,570	0.84
Australian Shareholder Nominees Limited	1,238,456	0.42
Seneschal (WA) Pty Limited	1,000,000	0.34
Invia Custodian Pty Limited	920,000	0.32
Mr Craig Thompson	750,000	0.26
Mr Raymond Ireson	645,934	0.22
E J Hart Group Pty Limited	500,000	0.17
Fay Fuller Foundation Pty Limited	500,000	0.17
Geomar Two Pty Limited	500,000	0.17
Invia Custodian Pty Limited	500,000	0.17
John Barnes Foundation Limited	500,000	0.17
Palmarc Investments Pty Limited	500,000	0.17
Rydge Marine Pty Limited	500,000	0.17
Mr Trevor Stuckey	500,000	0.17
Mr Ronald Walton	500,000	0.17
Mr Geoffrey Walton & Mr Ronald Walton	500,000	0.17
Mr Geoffrey Arnell	494,000	0.17
Mr Michael Ford & Ms Deborah Ford	400,000	0.14
Halcycon Pty Limited	400,000	0.14
Invia Custodian Pty Limited	400,000	0.14
Mr Gary Vugler & Mrs Lorraine Vugler	395,693	0.14

SHAREHOLDER INFORMATION
CONTINUED

	ORDINARY SHARES NUMBER HELD	% OF TOTAL SHARES ISSUED
Equity Security Holders Continued		
Twenty largest quoted equity security holders Continued		
O'Neil Company Pty Limited	360,000	0.12
NCS Holdings Pty Limited	355,700	0.12
Invia Custodian Pty Limited	350,000	0.12
R & D Fielke Pty Limited	350,000	0.12
Coolum Oak Pty Limited	320,000	0.11
B & J Phillips Pty Limited	300,000	0.10
Balfar Pty Limited	300,000	0.10
Bond Street Custodians Limited	300,000	0.10
BT Portfolio Services Limited	300,000	0.10
Horton Pty Limited	300,000	0.10
Invia Custodian Pty Limited	300,000	0.10
James & Diana Ramsay Foundation Pty Limited	300,000	0.10
Mr Robert Prowse & Mrs Stephanie Prowse	300,000	0.10
Mr David Shirlow & Mrs Jane Shirlow	300,000	0.10
Three Cheeky Monkeys Holdings Pty Limited	300,000	0.10
Veterinary Surgical Associates Pty Limited	300,000	0.10
Mr Robert Wilson	300,000	0.10
NCS Investments Pty Limited	275,900	0.10
	85,973,917	29.32

Option holders

Twenty largest quoted options holders

The names of the twenty largest option holders of quoted options are listed below:

	OPTIONS	
	NUMBER HELD	% OF TOTAL OPTIONS ISSUED
Platinum Investment Management Limited	50,000,000	17.09
Citicorp Nominees Pty Limited	10,130,100	3.46
Australian Shareholder Nominees Limited	4,143,655	1.42
Avanteos Investments Limited	4,025,000	1.38
Moya Pty Limited	2,500,000	0.85
HSBC Custody Nominees (Australia) Limited	1,797,000	0.61
Mr Gary Vugler & Mrs Lorraine Vugler	1,500,000	0.51
Hillboi Nominees Pty Limited	1,433,000	0.49
Halcycon Pty Limited	1,325,000	0.45
Invia Custodian Pty Limited	1,280,000	0.44
Forsyth Barr Custodians Limited	1,079,000	0.37
Mr David Clayton	1,050,000	0.36
Mr Geoffrey Arnell	1,000,000	0.34
Seneschal (WA) Pty Limited	1,000,000	0.34
Mr Geoffrey Walton & Mr Ronald Walton	850,000	0.29
Ilewise Pty Limited	800,000	0.27
Invia Custodian Pty Limited	800,000	0.27
Mr Craig Thompson	750,000	0.26
Costpro Pty Limited	700,000	0.24
Manfam Pty Limited	625,000	0.21
Invia Custodian Pty Limited	600,000	0.21
Invia Custodian Pty Limited	600,000	0.21
O'Neil Company Pty Limited	600,000	0.21
Mr Ronald Walton	580,000	0.20
Mr Ronald Walton & Mrs Betty Walton	580,000	0.20
	89,747,755	30.68

SHAREHOLDER INFORMATION
CONTINUED

Unquoted equity securities
There are no unquoted equity securities.

Substantial shareholders
The following entity has notified the Company that it has a substantial relevant interest in the ordinary shares of Platinum Asia Investments Limited in accordance with 671B *Corporations Act 2001*:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Platinum Investment Management Limited	50,000,000	17.07%^

^ As at the date of the last substantial shareholder notice lodged.

In addition, Platinum Investment Management Limited held 50,000,000 options, which represents 17.09% of the options issued (and still unexercised) as at 12 August 2016.

Voting Rights

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.

Working Capital
In accordance with ASX Listing Rule 4.10.19, between the date of admission to the official list of ASX and 30 June 2016, the Company has used its working capital in a way consistent with its business objective.

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

Notice of Annual General Meeting (AGM)
The details of the Annual General Meeting of Platinum Asia Investments Limited are:

Wednesday 2 November 2016 at 10am
Marble Room
Radisson Blu Plaza Hotel Sydney
27 O’Connell Street
NSW 2000

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

INVESTMENT METHODOLOGY
30 JUNE 2016

Platinum Asia Investments Limited (the "Company") is an investment company listed on the Australian Securities Exchange and open to investors who wish to purchase shares in the same way as one might buy shares in NAB or BHP. The Company is taxed at source and, over time, will pay dividends to shareholders (usually fully-franked) where possible. This feature, and the closed-end nature of the Company, distinguishes it from unlisted managed investment trusts.

The Company delegates the investment function to Platinum Investment Management Limited (trading as Platinum Asset Management) (the Manager). This entity employs an investment team which is responsible for managing the investments of the Company. The Company is a separate legal entity and shareholders in the Company have no ownership interest in Platinum Investment Management Limited.

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

Platinum Investment Management Limited seeks a broad range of investments in the Asian Region ex Japan whose businesses and growth prospects, it believes, are being inappropriately valued by the market. After identifying key themes and preferred industries, with due consideration of the macro environment, the portfolio is then built up through individual stock selection. How each stock will fit and function within the portfolio is also carefully assessed.

By locating the research efforts together in one place, Platinum Investment Management Limited facilitates the cross pollination of ideas and free flow of information between managers with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter and calming influence enabling a more objective assessment of "noisy" markets. This process is well supported by carefully planned and extensive visits to companies.

The wealth of research and detailed analysis that leads to the consideration of a stock addition/retention/reduction in a portfolio takes form in a disciplined reporting process that is open to the critical scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" each investment decision, as well as add accountability to the process. Implementation of investment decisions is also given detailed attention, as is the on-going review and monitoring of the portfolio.

For a more detailed look at Platinum Investment Management Limited's investment process, we would encourage you to visit Platinum's website at the following link:

www.platinum.com.au/about-us/investment-process/

DIRECTORS' REPORT

The Directors present their report prepared in accordance with a resolution of the Directors, together with the financial statements of Platinum Asia Investments Limited ("the Company") for the period from 24 June 2015 ("incorporation date") to 30 June 2016 ("the period").

Directors

The following persons were Directors of the Company from their appointment date (24 June 2015) and up to the date of this report:

Bruce Coleman	Chairman and Non-executive Director
Ian Hunter	Independent, Non-executive Director
Malcolm Halstead	Independent, Non-executive Director

Company Secretary

Janna Vynokur was Company Secretary of the Company from her date of appointment (24 June 2015) to 29 July 2016. Andrew Stannard was appointed Interim Company Secretary of the Company on 29 July 2016.

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term through investing primarily in listed securities of companies in the Asian Region ex Japan which are perceived by the Investment Manager, Platinum Investment Management Limited, to be undervalued.

Operating and Financial Review

During the period ended 30 June 2016, the Company completed its Initial Public Offering ("IPO") in accordance with the replacement prospectus dated 5 August 2015. The Company raised $292,869,646 by the issue of 292,869,646 ordinary shares and 292,869,646 attached options for nil consideration exercisable at $1.00 each on or before 15 May 2017. As at 30 June 2016, 307,600 options have been exercised and 307,600 additional shares have been issued.

The Company was admitted to the official list of ASX on 17 September 2015. The official quotation of its securities commenced on 21 September 2015.

The focus since the Company's inception has been on deploying investors' capital. The first 50% of the capital raised was invested within three days and another 24% was invested within 3 months. As at 30 June 2016, the portfolio was 86% invested with the remaining 14% held in cash. This leaves flexibility to increase our positions in existing companies or invest in new companies.

The operating loss for the Company for the reporting period ended 30 June 2016 after providing for income tax was $9,049,000.

The operating loss for the Company for the period ended 30 June 2016 before providing for income tax was $12,792,000. The income tax benefit for the period was $3,743,000.

Since inception to 30 June 2016, the Company's net assets on a pre-tax basis, after fees and expenses, decreased by 4.51%, compared to the benchmark Morgan Stanley All Country Asia ex Japan Net Index (MSCI) in $A terms return of (0.16%).

Whilst, it is disappointing to report an operating loss and relative underperformance since inception, the Investment Manager, Platinum Investment Management Limited has found that as a direct result of market volatility, it has been necessary to be very cautious in deploying investor's capital and to protect the portfolio against a major fall in the Chinese currency.

With respect to the investment outlook, Platinum Investment Management Limited reports that:

"Markets have been volatile, as economic restructuring, especially in a low growth world, has proven to be a rocky path.

Our view is that the direction taken by policymakers in the region is generally positive. As many companies in the Asian market are trading on attractive valuations, and a cheap starting valuation is a good indicator of future returns, we will continue to deploy capital when suitable opportunities arise."

Dividends

No dividend has been declared or paid up to the date of this report.

Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, which is to provide capital growth over the long term through investing primarily in undervalued listed securities in companies in the Asian Region ex Japan across all sectors. The methods of operating the Company are not expected to change in the foreseeable future.

DIRECTORS' REPORT
CONTINUED

Environmental Regulation
The Company is not adversely impacted by any particular or significant environmental regulation under Commonwealth, State or Territory law.

Information on Directors
Bruce Coleman BSC, BCOM, CA, FFIN
Chairman and Non-independent, Non-executive Director and Nominee of Platinum since 24 June 2015 and member of the Audit, Risk and Compliance Committee since 23 July 2015. (Age 66)

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

Ian Hunter BA, LLB, MBA
Independent and Non-executive Director since 24 June 2015 and Chairman of the Audit, Risk and Compliance Committee since 23 July 2015. (Age 64)

Mr Hunter has been in the finance and investment industry since 1975. He worked at several banks, most recently as a Director and Executive Vice President of Bankers Trust Australia. He has held various directorships of listed companies, including Etrade Australia Limited and Rubik Financial Limited. Mr Hunter is a Director of Ironbark Capital Limited.

Malcolm Halstead FCA
Independent and Non-executive Director since 24 June 2015 and member of the Audit, Risk and Compliance Committee since 23 July 2015. (Age 58)

Mr Halstead has worked in the finance and investment industry since 1982. He worked at Price Waterhouse and Bankers Trust Australia prior to joining Platinum as a founding member and Director in 1994. He was the Finance Director and Company Secretary of Platinum Capital Limited from 1994 to 2011 and Finance Director and Company Secretary of Platinum Asset Management Limited from 2007 to 2011.

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") held between 24 June 2015 and 30 June 2016, and the number of meetings attended by each Director were:

	BOARD		AUDIT, RISK AND COMPLIANCE COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD
Bruce Coleman	4	4	1	1
Ian Hunter	4	4	1	1
Malcolm Halstead	4	4	1	1

Indemnity and Insurance of Officers

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

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the period, indemnified or agreed to indemnify the auditor of the Company against a liability incurred by the auditor.

During the period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company.

Non-Audit Services

Details of the amounts paid or payable to the auditor for audit and other (non-audit) services provided during the period by the auditor are outlined in Note 21 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the period, 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 21 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.

DIRECTORS' REPORT
CONTINUED

Rounding of Amounts
The Company is of a kind referred to in ASIC Corporations "*Rounding in Financial/ Directors' Reports*" Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument 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 20.

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

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

Bruce Coleman
Chairman

Ian Hunter
Director

Sydney, 17 August 2016

Remuneration Report (Audited)

Executive Summary

– The Company has only three employees, being the Directors, and these were the only personnel remunerated by the Company during the period from 24 June 2015 (incorporation date) to 30 June 2016.
– The remuneration paid by the Company to the Chairman was $66,961 (including superannuation).
– The remuneration paid to the Non-executive Directors was $61,384 (including superannuation).
– The Company does not pay bonuses to any of its Directors.

Introduction

The Directors of Platinum Asia Investments Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the period 24 June 2015 to 30 June 2016.

The information provided in this Remuneration Report forms part of the Directors' Report and has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 of the *Corporations Act 2001*.

Key Management Personnel ("KMP")

For the purposes of this report, the KMP of the Company in office were:

NAME	POSITION
Bruce Coleman	Chairman and Non-executive Director
Ian Hunter	Independent, Non-executive Director
Malcolm Halstead	Independent, Non-executive Director

The Company has no employees, other than the Directors.

Principles, Policy and Components of Director's Remuneration

Remuneration paid to the 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 commensurate with the responsibilities borne by the Directors.

Directors received a fixed fee and mandatory superannuation.

DIRECTORS' REPORT
CONTINUED

Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

The remuneration of the Directors is reviewed annually by the Board and is set at market rates commensurate with the responsibilities borne by the Non-executive Directors. Independent professional advice may be sought. No other retirement benefits (other than mandatory superannuation) are provided to the 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.

Remuneration for Directors
The table below presents amounts received by the Directors for the period 24 June 2015 to 30 June 2016.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Bruce Coleman	61,152	5,809	–	–	66,961
Ian Hunter	56,058	5,326	–	–	61,384
Malcolm Halstead	56,058	5,326	–	–	61,384
Total	**173,268**	**16,461**	**–**	**–**	**189,729**

Employment Arrangements of KMP
The key aspects of the KMP contracts are as follows:

- Remuneration and other terms of employment for Directors are formalised in letters of appointment that all Directors signed during the year.
- All contracts with Directors 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 the Directors 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 only entitled to receive their statutory entitlements.
- 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 the Remuneration of the Directors and Company Performance

	2016
Total investment (loss) ($'000)	(8,466)
Expenses ($'000)	(4,326)
Operating loss after tax ($'000)	(9,049)
Earnings per share (cents per share)	(3.97)
Dividends (cents per share)	–
Net asset value (pre-tax) (30 June) ($ per share)	0.9338
Closing share price (30 June) (cents per share)	88.5
Closing option price (30 June) (cents per option)	1.6
Total fixed remuneration (salary and superannuation) paid ($)	189,729

The remuneration of the Directors is not linked to the performance of the Company.

Interests of Directors in shares and options

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

	OPENING BALANCE (DATE OF INCORPORATION)	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	1	250,000	–	250,001
Ian Hunter	1	100,000	–	100,001
Malcolm Halstead	1	–	–	1

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

	OPENING BALANCE (DATE OF INCORPORATION)	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	–	250,000	–	250,000
Ian Hunter	–	100,000	–	100,000
Malcolm Halstead	–	–	–	–

Options were granted to all shareholders as part of the IPO, at an exercise price of $1.00, exercisable on or before 15 May 2017.

AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Asia Investments Limited for the period from 24 June 2015 to 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney, 17 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
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T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2016

	NOTE	PERIOD FROM 24 JUNE 2015 TO 30 JUNE 2016 $'000
Investment income		
Dividends		2,744
Interest		290
Net losses on equities/derivatives		(6,374)
Net losses on foreign currency forward contracts		(1,140)
Net foreign exchange losses on overseas bank accounts		(3,986)
Total investment loss		(8,466)
Expenses		
Management fees	19	(2,398)
IPO non-capitalised fees and charges		(283)
Custody		(250)
Share registry		(47)
Continuous reporting disclosure		(121)
Directors' fees		(190)
Auditor's remuneration and other services	21	(126)
Transaction costs		(736)
Other expenses		(175)
Total expenses		(4,326)
Profit/(loss) before income tax expense		(12,792)
Income tax benefit	3(a)	3,743
Profit/(loss) after income tax benefit for the period attributable to the owners of Platinum Asia Investments Limited	11	(9,049)
Other comprehensive income for the period, net of tax		–
Total comprehensive Income/(loss) for the period attributable to the owners of Platinum Asia Investments Limited		**(9,049)**
Basic earnings per share (cents per share)	10	(3.97)
Diluted earnings per share (cents per share)	10	(3.97)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	NOTE	2016 $'000
Assets		
Cash and cash equivalents	13(a)	45,744
Trade and other receivables	6	633
Financial assets at fair value through profit or loss	4	230,098
Deferred tax asset	3(b)	5,593
Total assets		282,068
Liabilities		
Payables	7	448
Financial liabilities at fair value through profit or loss	5	1,657
Total liabilities		2,105
Net assets		279,963
Equity		
Issued capital	8	278,772
Reserves	9	10,240
Retained earnings	11	(9,049)
Total equity		279,963

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

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2016

	NOTE	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance on date of incorporation (24 June 2015)		–	–	–	–
Loss after income tax benefit for the period		–	–	(9,049)	(9,049)
Other comprehensive income for the period, net of tax		–	–	–	–
Total comprehensive income/(loss) for the period		–	–	(9,049)	(9,049)
Transactions with owners in their capacity as owners:					
Proceeds from the issue of shares associated with the IPO and exercise of options	8, 9	282,937	10,250	–	293,187
Transaction costs on issue of shares and options in relation to the IPO, net of tax	8	(4,165)	–	–	(4,165)
Movement in share option reserve	9	–	(10)	–	(10)
		278,772	10,240	(9,049)	279,963

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2016

	NOTE	PERIOD FROM 24 JUNE 2015 TO 30 JUNE 2016 $'000
Cash flows from operating activities		
Payments for purchase of financial assets		(375,501)
Proceeds from sale of financial assets		135,562
Dividends received		2,298
Interest received		263
Management fees paid		(2,147)
Other expenses paid		(1,901)
Net cash from/(used in) operating activities	13(b)	**(241,426)**
Cash flows from financing activities		
Net proceeds from the issue of shares and options in relation to the IPO		286,794
Proceeds from the issue of shares associated with the exercise of options	8	308
Net cash from/(used in) financing activities		**287,102**
Net increase in cash and cash equivalents		45,676
Cash and cash equivalents at the beginning of the period		–
Effects of exchange rate changes on cash and cash equivalents		68
Cash and cash equivalents at the end of the year	13(a)	**45,744**

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

General information
Platinum Asia Investments Limited ("the Company") is a listed investment company incorporated on 24 June 2015. During the period ended 30 June 2016, the Company completed its Initial Public Offering ("IPO") in accordance with the replacement prospectus dated 5 August 2015. The Company raised $292,869,646 by the issue of 292,869,646 ordinary shares and 292,869,646 attached options for nil consideration exercisable at $1.00 each on or before 15 May 2017.

Note 1. Summary of Significant Accounting Policies
The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies will be adopted and applied in the preparation of future financial statements of the Company.

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.

The statement of financial position is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

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, that management believes to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 1. Summary of Significant Accounting Policies Continued

Basis of preparation Continued

Fair value measurement hierarchy (refer to Note 17)

The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as Level 3 (if any) is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Recovery of deferred tax assets (refer to Note 3)

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

Financial assets/liabilities at fair value through profit or loss

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the Company's statement of financial position as "financial assets at fair value through profit or loss". Derivatives and foreign currency forward 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 Company 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".

The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the Company, 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 Company has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

Note 1. Summary of Significant Accounting Policies Continued

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

Generally, derivatives take the form of long and short equity swap contracts. Equity swaps are valued based on the price of the underlying investment, which may be a specific share or a share market index. Daily fluctuations in the value of derivatives were recognised as part of "net gains/(losses) on equities/derivatives" in the statement of profit or loss and other comprehensive income.

Long equity swap contracts allow the Company to gain exposure to price movements of underlying investments without buying the underlying investment. Under the term of each long equity swap contract, the Company makes a profit if the underlying share price was higher on the date that the contract was closed relative to the price when the contract commenced.

With respect to short equity swap contracts, the Company makes a profit if the underlying share price was lower on the date that the contract was closed relative to the price when the contract commenced.

Participatory Notes are sometimes used as a convenient means of investing in local securities by a foreign investor. Participatory Notes are generally traded over-the-counter, as they are issued by a counterparty to provide the investor with exposure to an individual equity or a basket or index of equities, in markets where liquidity, custody or other issues make ownership of the local shares sub-optimal. The valuation of Participatory Notes depends on the level of trading. If the Participatory Notes are actively traded, then the market price is used. If the Participatory Notes are not actively traded, counterparties provide a daily valuation that is based on the intrinsic value of the individual security.

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 statement of profit or loss and other comprehensive income in the period they arise.

Foreign currency forward contracts are initially recognised at fair value on the date contracts are entered into and are subsequently remeasured at each reporting date. The fair value is the unrealised profit or loss on the foreign currency position (in Australian dollars).

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 1. Summary of Significant Accounting Policies Continued

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

Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques or any other valuation techniques that provides a reliable estimate of prices obtained in actual market transactions. Options are valued with reference to the quoted price of the underlying index or share. If there is no liquid market available, the options are valued based on the option prices provided by an arm's length broker. These valuations are based on option pricing models.

Recognition/derecognition

The Company recognises financial assets and liabilities on the date they become party to the purchase contractual agreement (trade date) and recognises changes in fair value of the financial assets and liabilities from this date. Financial assets and liabilities are no longer recognised on the date they become party to the sale contractual agreement (trade date).

Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Refer to Note 18 for further information.

Transaction costs on financial assets

Initial measurement (cost) on purchase of trading securities shall not include directly attributable transaction costs, such as fees and commissions paid to agents. Incremental transaction costs on purchases of financial assets at fair value through profit or loss are expensed immediately.

Operating segments

Operating segments are presented using a single operating segment. However AASB 8: *Operating Segments* requires certain entity-wide disclosures. Refer to Note 2 for further information.

Foreign currency transactions

Items included in the Company'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 Company is regulated, capital is raised and dividends are paid in. The Australian dollar is also the Company's presentation currency.

Note 1. Summary of Significant Accounting Policies Continued

Foreign currency transactions Continued

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 balance date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

Investment income

Interest income

Interest income is recognised in the statement of profit or loss and other comprehensive income based on nominated interest rates available on the bank accounts held at various locations.

Dividend income

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

Directors' entitlements

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

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 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Any foreign withholding tax on income, deducted at source or paid, will be included as part of the income tax expense.

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 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 2016

Note 1. Summary of Significant Accounting Policies Continued

Receivables

All receivables are recognised when a right to receive payment is established. Debts that are known to be uncollectible are written off.

Due from/due to brokers for unsettled trades

Amounts due from/due to brokers represent receivables for proceeds on sale of financial assets (as disclosed in Note 6) and payables on purchase of financial assets/liabilities (as disclosed in Note 7) that have been traded, but not yet settled at reporting date. Proceeds on sale of financial assets are usually received between two and five days after trade date. Payables on purchase of financial assets/liabilities are usually paid between two and five days after trade date.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions, cash held in margin accounts and other short-term, highly liquid investments and term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of financial assets are classified as "cash flows from operating activities" as realised and unrealised gains (and losses) on financial assets represent the Company's main source of operating income.

Trade and other payables

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

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

A provision is booked in the accounts if the Directors declare or determine to pay a dividend on or before balance date that has not been paid at balance date.

Expenses

All expenses, including management fee and performance fee (if any), are recognised in the statement of comprehensive income on an accruals basis.

Note 1. Summary of Significant Accounting Policies Continued

Share option reserve

The share option reserve will be measured at the fair value of the options at the date of issue within equity. The reserve is adjusted with a corresponding entry to share capital on exercise of the options. At the expiration of the option period, the portion of the reserve relating to unexercised options will be transferred to a capital reserve.

Dividend profit reserve

To the extent that any current year profits are not distributed, the Company's policy will be to set aside those undistributed profits to a separate profits reserve, rather than offsetting those profits against retained earnings. This policy will ensure that any undistributed profits will not be netted against potential future losses and will remain available for payment of future franked dividends. For example, the Directors may decide not to distribute all of the available profits in a given year due to a lack of available franking credits and may reserve the undistributed profits for future dividends when more franking credits become available. The reserve is included when determining the overall equity of the Company for accounting purposes.

Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the owners of Platinum Asia Investments Limited, by the weighted average number of ordinary shares outstanding during the year.

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 expenses.

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 cash flows from operating activities.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations "*Rounding in Financial/Directors' Reports*" Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in these financial statements have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 1. Summary of Significant Accounting Policies Continued

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet mandatory, and have not been early adopted by the Company for the annual reporting period ended 30 June 2016. The Company's assessment of the impact of the new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 15: *Revenue from contracts with customers and amendments to AASB 15*.
The main objective of this 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. The Company's main source of income is gains on equities and derivatives, foreign currency forward contracts and overseas bank accounts, as well as interest and dividend income. All of these income types are outside the scope of the standard. The standard is applicable for reporting periods beginning on or after 1 January 2018. The standard was assessed as not having a material impact on the Company in current or future reporting periods.

AASB 2016-1: *Amendments: Recognition of deferred tax assets for unrealised losses*.
This amends AASB 12: *Income Taxes* and clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. This amendment is applicable for reporting periods beginning on or after 1 January 2017.

The standard was assessed as having no impact on the Company in the current or future reporting periods, as the Company has no debt instruments.

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 applicable for reporting periods beginning on or after 1 January 2018.

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

There are no other standards that are not yet effective that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Note 2. Operating Segments

Identification of reportable operating segments

The Company is organised into one main operating segment with the key function of the investment of funds in the Asian Region ex Japan. AASB 8: *Operating Segments* requires disclosure of revenue by investment type and geographic location, which is outlined below:

(a) Investment income by investment type

	2016 $'000
Equity securities	6,039
Derivatives#	(9,669)
Foreign currency forward contracts	(1,140)
Bank accounts	(3,696)
Total	(8,466)

\# During the year, as a precursor to obtaining the relevant approvals to purchase securities in certain countries, derivatives in the form of long equity swaps were purchased to build a position and gain long exposure to various companies (predominantly located in India). In most cases, the positions were subsequently closed, and purchases were made of the securities directly.

(b) Investment income by geographic location

	2016 $'000
China	(1,405)
China ex PRC^	(4,032)
Hong Kong	(890)
Taiwan	330
Greater China Total	(5,997)
Singapore	1,293
India	685
Thailand	353
South Korea	(375)
Philippines	325
Australia	432
Vietnam	130
North America	(4,172)
Unallocated investment income – Net losses on foreign currency forward contracts	(1,140)
Total	(8,466)

^ China ex PRC refers to Chinese equity securities listed outside mainland China.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 3. Income Tax

(a) Income tax benefit

The income tax benefit attributable to the current period operating loss comprises:

	2016 $'000
Current period income tax benefit	6,465
Deferred tax liability	(2,422)
Deferred tax asset	1,550
Costs associated with the Initial Public Offer, transferred to equity	(1,785)
Withholding tax on foreign dividends	(65)
Income tax benefit	3,743
The income tax benefit attributable to the current period differs from the prima facie income tax benefit on the operating loss. The difference is reconciled as follows:	
Loss before income tax expense	(12,792)
Prima facie income tax benefit at tax rate of 30%	3,838
Increase tax payable:	
– Tax impact of withholding tax paid that cannot be claimed as a credit	(95)
Income tax benefit	3,743

(b) Deferred tax asset

The deferred tax asset figure in the statement of financial position is comprised of temporary differences attributable to:	
Deferred tax asset impact on the current period realised/(taxable) loss	6,090
Deferred tax asset impact on costs associated with the Initial Public Offer	1,870
Deferred tax asset impact on expense accruals	40
Deferred tax liability on dividends accrued	(134)
Deferred tax liability on investments	(2,273)
Deferred tax asset	5,593

In line with its existing accounting policy, the Company has exercised judgement in determining the extent of recognition of its deferred tax balance. Since the Company commenced operations in September 2015, markets to which the Company is exposed have experienced volatility which has led to realised investment losses.

Note 3. Income Tax Continued

(b) Deferred tax asset Continued

These losses, together with certain IPO costs, have given rise to the recognition of a deferred tax asset (DTA) of $5,593,000 as at 30 June 2016. In order to recover the deferred tax asset, the Company will need to generate future taxable (realised) income principally through realised investment gains.

In assessing the recoverability of the DTA, the Company has considered the annual compound return since inception of Platinum Asia Fund (a Platinum managed fund, with the same regional focus, portfolio composition and investment manager as the Company) together with Platinum Investment Management Limited's views of the medium-term outlook for the stocks and markets in which the Company invests.

Based on this assessment, the Company has determined that it is probable that the deferred tax balance will be recovered in future periods through realised investment gains.

	2016 $'000

Note 4. Financial Assets at Fair Value through Profit or Loss

	2016 $'000
Equity securities	228,098
Derivatives	158
Foreign currency forward contracts	1,842
	230,098

Refer to Note 17 for further information on the fair value measurement of these financial assets.

Note 5. Financial Liabilities at Fair Value through Profit or Loss

	2016 $'000
Derivatives	23
Foreign currency forward contracts	1,634
	1,657

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

Refer to Note 17 for further information on the fair value measurement of these financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

	2016 $'000
Note 6. Receivables	
Prepayments	125
Dividends receivable	446
Interest receivable	27
Goods and Services Tax receivable	35
	633

Dividends are usually received within approximately 30 days of the ex-dividend date. Information relating to the ageing of receivables is shown in Note 16.

Note 7. Payables

Payables on purchases of financial assets	11
Trade creditors (unsecured)	435
Group tax payable	2
	448

Payables on purchases of financial assets are usually paid between two and five days after trade date. Trade creditors are payable between 14 and 30 days after receipt of the invoice. These payables are non-interest bearing. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 16.

Note 8. Equity – Issued Capital

For the period ended 30 June 2016, the Company completed its Initial Public Offering ("IPO") and raised $292,869,646 by the issue of 292,869,646 ordinary shares and 292,869,646 attached options for nil consideration exercisable at $1.00 each on or before 15 May 2017. Since completion of the IPO, 307,600 options have been exercised and converted to shares.

The capital raised of $292,869,646 was allocated between the ordinary shares issued and the fair value of options at the date of issue, because shareholders received both shares and options as a result of participating in the IPO.

Note 8. Equity – Issued Capital Continued

The options were valued using the Black-Scholes model, and this produced a valuation of 3.5 cents per option. Accordingly, the value attributable to each share was 96.5 cents per share. Shares on issue at 30 June 2016 was as follows:

	2016 SHARES	2016 $'000
Ordinary shares – fully paid, net of costs of the IPO, net of tax	293,177,249	278,772

Movements in ordinary share capital

	DATE/MONTH	2016 SHARES	2016 $'000
Balance on incorporation date	24 June 2015	3	–
Shares issued under the IPO	September 2015	292,869,646	282,619
Options exercised – issue of shares	October 2015	109,300	113
Options exercised – issue of shares	November 2015	70,800	73
Options exercised – issue of shares	December 2015	61,500	64
Options exercised – issue of shares	January 2016	20,500	21
Options exercised – issue of shares	February 2016	10,000	10
Options exercised – issue of shares	April 2016	2,500	3
Options exercised – issue of shares	May 2016	25,000	26
Options exercised – issue of shares	June 2016	8,000	8
Sub-total		293,177,249	282,937
Less transactions costs in relation to the IPO, net of tax (see breakdown on the following page)		–	(4,165)
		293,177,249	278,772

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 8. Equity – Issued Capital Continued

Transactions costs in relation to the IPO, net of tax, transferred to equity

At 30 June 2016, the Company incurred the following fees in relation to the IPO that were transferred to equity:

	2016 $
Joint Lead Manager and Arranger fees	2,585,175
Broker firm fees	2,031,552
Other fees*	1,333,927
Sub-total	5,950,654
Less current and future period tax deductions	(1,785,196)
Total transaction costs	4,165,458

* Other fees include legal fees, investigating accountant and tax advisor fees, ASIC lodgement costs, prospectus costs and non-recoverable GST expense. ASX Listing Fees have been expensed in the profit and loss and shown as "IPO non-capitalised fees and charges".

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. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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.

Options

On 15 September 2015, the Company as part of the IPO issued 292,869,646 options to shareholders to acquire ordinary shares in the Company at an exercise price of $1.00 exercisable on or before 15 May 2017 (exercise period of 20 months). The options trade on the ASX under the ASX code PAIO. During the year, 307,600 options were exercised and 307,600 new shares issued which raised capital of $307,600.

At 30 June 2016, there were 292,562,046 options on issue. Options do not carry an entitlement to dividends or an entitlement to vote or participate in new share issues until they have been exercised and shares have been issued.

Note 9. Reserves – Options

Fair Value of Options Issued

The assessed fair value at issue date was 3.5 cents per option. The model inputs used to determine this fair value is set out below:

INPUT	VALUE
a. Exercise price	$1
b. Life of option	20 months
c. Dividend yield	5%
d. Volatility	20%
e. Risk-free rate	1.99%
f. Dilution factor	50%
g. Options uplift	2%

As the Company was newly listed, there was no historical basis on which to base the assumed price volatility of the Company's options or shares. The assumed volatility was based on an analysis of comparable listed investment companies that invest in the Asian region.

The options fair value reserve entry at 30 June 2016 was 292,562,046 options outstanding multiplied by 3.5 cents per option equals $10,239,672.

Movements in options that are still outstanding and associated movement in options reserve was as follows:

DETAILS	DATE	OPTIONS	2016 $'000
Options issued under the IPO	September 2015	292,869,646	10,250
Options exercised	October 2015	(109,300)	(4)
Options exercised	November 2015	(70,800)	(2)
Options exercised	December 2015	(61,500)	(2)
Options exercised	January 2016	(20,500)	(1)
Options exercised	February 2016	(10,000)	–
Options exercised	April 2016	(2,500)	–
Options exercised	May 2016	(25,000)	(1)
Options exercised	June 2016	(8,000)	–
		292,562,046	10,240

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	2016 $'000

Note 10. Earnings Per Share

Loss after income tax attributable to the owners of Platinum Asia Investments Limited	(9,049)

	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	227,870,394
Weighted average number of ordinary shares used in calculating diluted earnings per share*	227,870,394
Basic earnings/(loss) per share (cents)	(3.97)
Diluted earnings/(loss) per share (cents)*	(3.97)

* The dilutive effect of the unexercised options reduced the loss per share and therefore cannot be included in the calculation of diluted earnings per share.

	2016 $'000

Note 11. Equity – Retained Earnings

Retained earnings at the beginning of the period	–
Operating loss after income tax expense for the period	(9,049)
Retained earnings at the end of the period	(9,049)

Note 12. Equity – Dividends

No dividend was declared during the period or between 30 June 2016 and the date of issue of this report.

The Company did not pay any tax instalments in the current period. As a result, at balance date, the Company has no franking credits to distribute.

Note 13. Notes to the Statement of Cash Flows

(a) Components of cash and cash equivalents

	2016 $'000
Cash at bank	3
Cash on deposit held within the portfolio*	45,741
	45,744

* Includes $6,651,000 on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security. If losses are realised, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are either at call or are in the form of short-dated term deposits and majority bear floating interest rates in the range of 0% to 1.90%.

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

	2016 $'000
Profit after income tax expense for the period	(9,049)
Adjustments for:	
Foreign exchange differences	(68)
(Increase) in investment securities and foreign currency forward contracts	(228,441)
Change in operating assets and liabilities:	
(Increase) in interest receivable	(27)
(Increase) in dividends receivable	(446)
(Increase) in Goods and Services Tax receivable	(35)
Increase in settlement payable	11
Increase in trade and other payables	437
(Increase) in current period income tax benefit	(4,680)
(Increase) in future period deferred tax asset	(1,550)
Increase in deferred tax liability	2,422
Net cash used in operating activities	(241,426)

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Note 14. Statement of Net Asset Value

	2016 $'000
Reconciling Net Asset Value (post-tax) in accordance with Australian Accounting Standards to that reported to the ASX	
Post-tax Net Asset Value per statement of financial position	279,963
Realisation costs and accruals*	(597)
Deferred income tax asset recognised in the accounts, but not recognised in Net Asset Value**	(5,593)
Post-tax Net Asset Value as reported to the ASX	–
	273,773

Post-tax Net Asset Value at 30 June 2016 was $0.9338 per share.

* At 30 June 2016, financial assets and liabilities were valued at "last-sale" price for both ASX and financial accounts reporting. The immaterial difference at 30 June 2016 is mainly caused by the ASX requirement that realisation costs need to be deducted for ASX reporting of NAV.

** At 30 June 2016, the post-tax NAV reported to the ASX was calculated on a full liquidation basis, therefore any deferred tax asset in excess of the liquidation tax provision was not recognised.

Note 15. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2016 $'000
China		
Jiangsu Yanghe Brewery – Participatory Note	486,028	7,058
Kweichow Moutai – Participatory Note	74,597	4,359
Heilan Home – Participatory Note	1,192,372	2,722
Qingdao Haier – A share – Participatory Note	2,290,888	4,096
Inner Mon Yil – Participatory Note	417,300	1,401
		19,636
China ex PRC		
Hang Lung Properties	1,662,855	4,493
China Resources Gas	1,633,672	6,641
Anta Sports	1,480,551	3,970
Tencent	304,097	9,263
CNOOC	4,440,330	7,389
China Taiping Insurance	1,810,986	4,523
Alibaba – American Depository Receipt	59,104	6,309
Baidu – American Depository Receipt	26,940	5,971
Ctrip International – American Depository Receipt	13,000	719
JD.com – American Depository Receipt	203,304	5,793
SouFun – American Depository Receipt	441,348	2,979
Sina	78,945	5,496
58.com – American Depository Receipt	11,200	690
		64,236
Hong Kong		
CK Hutchison	282,545	4,132
Belle International	1,143,628	898
ENN Energy	582,417	3,843
Tingyi (Cayman)	981,860	1,242
Shangri-La Asia	650,345	872
		10,987

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	QUANTITY	2016 $'000
Note 15. Investment Portfolio Continued		
India		
Mahanagar Gas – Long Equity Swap	257,253	(23)
Adani Ports and Special Economic Zone	705,344	2,900
Credit Analysis & Research	56,000	1,107
Coffee Day Enterprises	129,408	657
Coal India	606,410	3,773
Gujarat Pipavav Port	405,100	1,313
Gujarat Gas	89,664	994
Gujarat State Petronet	1,344,315	3,829
Housing Development and Infrastructure	1,485,700	3,049
ICICI Bank	1,646,138	7,870
IDFC	1,536,000	1,450
IDFC Bank	1,411,639	1,268
Indraprastha Gas	146,000	1,821
Info Edge India	111,890	1,838
IRB Infrastructure Developers	853,000	3,618
NTPC	1,637,800	5,088
PVR	58,000	1,165
Reliance Industries	131,300	2,529
Sintex Industries	1,272,158	2,047
Yes Bank	422,292	9,292
		55,585
Korea		
SK Hynix	147,893	5,583
Shinhan Financial	96,240	4,261
KB Financial	39,455	1,499
Kangwon Land	68,979	3,351
Samsung Electronics	7,061	11,724
		26,418
Singapore		
Jardine Matheson Holdings	101,292	7,927
		7,927

	QUANTITY	2016 $'000
Note 15. Investment Portfolio Continued		
Philippines		
Ayala	182,700	4,414
Ayala Land	5,704,644	6,299
Vista Land & Lifescapes	17,228,529	2,618
		13,331
Taiwan		
Uni-President Enterprises	2,568,400	6,786
Advanced Semiconductor Engineering	2,610,000	3,980
		10,766
Thailand		
Amata – Foreign	2,502,768	1,224
Bangkok Bank – Non-voting Depository Receipt	119,410	723
Kasikornbank – Non-voting Depository Receipt	551,431	3,583
Kasikornbank – Foreign	895,013	5,900
Land and Houses – Non-voting Depository Receipt	14,980,400	5,181
Major Cineplex – Foreign	2,043,679	2,578
		19,189
Vietnam		
Vietnam Dairy Products – Long Equity Swap	647,142	158
		158
Total equities and derivatives (Note 4 and Note 5)*		**228,233**

* From Note 4, the total of equity securities was $228,098,000, and the total of derivatives was $158,000 less from Note 5, the total of derivatives of $23,000. This results in a total of $228,233,000.

Add:	
Payables on purchases of financial assets (Note 7)	(11)
Dividends receivable (Note 6)	446
Cash on deposit held within the portfolio (Note 13)	45,741
Foreign currency forward contracts (Note 4 and Note 5)	208
Total Investment Portfolio (reconciles to Note 16 at page 49)	274,617

During the period, the number of transactions was 1,506 and the total brokerage paid was $1,611,236 ($735,943 on purchases and $875,293 on sales).

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Note 16. Financial Risk Management

Financial risk management objectives

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

The Investment Manager, Platinum Investment Management Limited's investment style:

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

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

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

(iv) actively manages currency.

The Company may use financial derivative instruments (both Over-the-Counter (OTC) derivatives and exchange traded derivatives) for risk management purposes and to take opportunities to increase returns, including, for example:

- to gain access to markets not readily available to foreign investors;
- to create a short position in a company;
- to build a position in a company as a short-term strategy to be reversed when physical positions are purchased; and
- to aid in the management of the Company's cash flows (e.g. some stock markets require pre-funding of stock purchases that may be avoided through the use of derivatives).

The underlying value of derivatives held by the Company may not exceed 100% of the Net Asset Value (NAV). If the Company has a 100% NAV exposure to derivative positions, it is theoretically possible that the Company would lose its entire NAV from losses on its derivative positions. The underlying value of long stocks and derivative contracts may not exceed 150% of the NAV. Where options are employed, the underlying value will be the delta-adjusted exposure. It should be noted that while the Company may be leveraged up to 150% of its NAV, shareholders would not have an exposure in excess of 100% of their investments in the securities. Furthermore, in practice, the Company's net effective exposure excluding cash will rarely exceed 100% of its NAV. Compliance with these limits are reviewed by the Board and the Audit, Risk and Compliance Committee on a regular basis.

Note 16. Financial Risk Management Continued

The table below summarises the Company's physical exposure at fair value and derivative exposure.

2016	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
China	19,636	–	–	19,636
China ex PRC^	57,927	–	–	57,927
Hong Kong	10,987	–	–	10,987
Taiwan	10,765	–	–	10,765
Greater China sub-total	99,315	–	–	99,315
India	55,607	2,158	–	57,765
Thailand	19,190	–	–	19,190
South Korea	26,419	–	–	26,419
Philippines	13,331	–	–	13,331
Singapore	7,927	–	–	7,927
Vietnam	–	5,491	–	5,491
North America	6,309	–	–	6,309
	228,098	7,649	–	235,747

^ China ex PRC refers to Chinese investments listed outside mainland China.

The "Physical" column represents the location of the Company's investments. The Investments shown above in the "Physical" column (totalling $228,098,000) reconciles to the fair value of equity securities disclosed in Note 4.

The "Long/Short Derivative Contracts" columns include the notional value of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the investment portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in India, but there was a 2% short position in Indian futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the Portfolio was net short the Indian market.

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Note 16. Financial Risk Management Continued

Market risk

Foreign exchange risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates in the Asian Region ex Japan and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency. Platinum Investment Management Limited selects stocks based on value regardless of geographic location. The Company undertakes a significant number of its transactions denominated in foreign currencies and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Currency hedging is an integral part of the management of currency risk. Platinum Investment Management Limited may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2016, the Company favoured the US Dollar and various Asian currencies. The Company remains heavily hedged back into US Dollars at 37%, with an additional 21% in Hong Kong Dollars, 21% was held in Indian Rupees, with a negative hedge of 12% against the Chinese Yuan, because it is the view of Platinum Investment Management Limited that depreciation of the Yuan (against the US Dollar) is likely to occur.

Platinum Investment Management Limited may use foreign currency forward contracts, and futures and option contracts on foreign currency contracts to position the Portfolio in the desired currencies. A currency exposure may be hedged into a different currency from that which the exposure is maintained (for example, US Dollar hedges may be used to hedge the currency risk of holding investments in the Chinese Yuan).

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

Note 16. Financial Risk Management Continued

Market risk Continued

Foreign exchange risk Continued

The table below summarises the Company's investment exposure at fair value to foreign exchange risk. The total "Physical" and "Net Exposure" reconciles to the total investment portfolio in Note 15.

2016	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Chinese Yuan	19,636	10,731	(62,591)	(32,224)
Hong Kong Dollar	57,112	–	–	57,112
Taiwan Dollar	10,765	–	(8,056)	2,709
United States Dollar	52,681	117,381	(62,178)	107,884
Indian Rupee	55,764	–	–	55,764
Korean Won	26,420	13,922	(24,526)	15,816
Thai Baht	19,557	–	–	19,557
Philippines Peso	14,146	–	–	14,146
Vietnam Dong	158	–	–	158
Australian Dollar	18,378	37,389	(22,072)	33,695
	274,617	179,423	(179,423)	274,617

The table on the following page summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United Stated Dollar and Indian Rupee (shown in the +10% column) and weakened by 10% against the United States Dollar and Indian Rupee (shown in the –10% column). These two currencies are the two most material foreign currencies to which the Company was exposed at 30 June 2016.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements. The sensitivity has been undertaken on a combined basis for both monetary assets and liabilities and financial assets and liabilities measured at fair value through profit or loss, as the Company believes this accurately portrays the Company's exposure to foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS
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Note 16. Financial Risk Management Continued

Market risk Continued

Foreign exchange risk Continued

2016	AUD STRENGTHENED % CHANGE	AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000	AUD WEAKENED % CHANGE	AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000
United States Dollar	10%	(9,823)	(10%)	12,006
Indian Rupee	10%	(5,057)	(10%)	6,181
		(14,880)		18,187

The weakening of the AUD will reduce the operating loss. A strengthening of the AUD will increase the operating loss.

If the Australian Dollar strengthened or weakened by 10% against all other currencies that the Company is exposed to, then the Company's profit before tax would decrease by A$6,004,879 or increase by A$7,339,296.

The sensitivity analysis shows that the Company is materially affected by exchange rate movements.

Interest Rate Risk

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

The majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Cash holdings are directly affected by interest rate movements, but at balance date, interest rates on these cash accounts are very low (and range from 0% to 1.90%). Therefore, there is minimal direct exposure to interest rate risk on these cash holdings.

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on foreign currency forward contracts.

The impact of interest rate movements on these foreign currency forward contracts is not capable of precise estimation. At 30 June 2016, if interest rates had changed by +/–100 basis points with all other variables held constant, the direct impact on interest income would not be significant for the Company.

Note 16. Financial Risk Management Continued

Market risk Continued

Price risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. Platinum Investment Management Limited's stock selection process is core to the management of price risk. Platinum adopts a thematic stock selection approach and is referred to as being an "active manager". Platinum Investment Management Limited seeks a broad range of Asian ex Japan investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, holdings in the Company may vary considerably from the make-up of the MSCI Asia ex Japan index. This is the case at the present time.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. There were no open short equity swap positions at 30 June 2016.

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. At 30 June 2016, the markets that the Company had the biggest investment exposure to are the Shanghai Stock Exchange and National Stock Exchange of India. The effect on profit due to a possible change in market factors, as represented by a –/+10% movement in these markets with all other variables held constant, is illustrated in the table below:

2016	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX $'000	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX $'000
Shanghai Stock Exchange	10%	7,310	(10%)	(7,310)
National Stock Exchange of India	10%	5,563	(10%)	(5,563)
		12,873		(12,873)

An increase in the above indices may reduce the operating loss. A decrease in the above indices may increase the operating loss.

If all other share market indices that the Company invests moved by +/-10%, then the Company's profit would increase/(decrease) by A$9,411,000. A sensitivity of 10% has been selected, as this is considered reasonably possible. The indices selected are proxies for the Company's physical exposure to those markets. This analysis is based on the assumption the Company's investments move in correlation with the indices. The indices provided are a reference point only. Actual movements in stocks held in the portfolio will vary significantly to movements in the index, as the Company is index agnostic.

NOTES TO THE FINANCIAL STATEMENTS
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Note 16. Financial Risk Management Continued

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company. (typically "non-equity" financial instruments or cash/deposit holdings).

The exposure to credit risk for cash and cash equivalents, futures, equity swaps, and foreign currency forward contracts is any unrealised profit, margins and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. The table below shows the Company's counterparty credit risk exposure by credit rating:

RATINGS	2016 $'000
A	36,443
A–	20,386
AA–	5,368
BBB+	3,337
Total	65,534

Platinum Investment Management Limited regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by spreading exposure over a number of counterparties by signing standard ISDA (International Swaps and Derivatives Association) master agreements and net settlement contracts, employing two-way symmetrical margining of unrealised profits and losses and by controlling the duration of contracts to be short-term. Transactions in listed securities and investments are entered into with approved brokers. Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment.

	2016 $'000
The Company's ageing analysis of receivables (disclosed in Note 6 and the statement of financial position) at 30 June 2016 is as follows:	
0 – 30 days	250
31 – 60 days	258
90+ days	125
Total	633

Note 16. Financial Risk Management Continued

Liquidity risk

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

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

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

Remaining contractual maturities

The following table details the Company'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 were required to be paid.

2016	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 6 MONTHS $'000	TOTAL $'000
Non-financial			
Trade creditors	448	–	448
Total non-financial	448	–	448
Financial			
Derivative contractual outflows	23	–	23
Foreign currency forward contractual outflows	511	1,123	1,634
Total financial	534	1,123	1,657

At 30 June 2016, there were no other contractual amounts payable after six months.

The Company has sufficient funds to meet these liabilities as the value of total net assets realisable in one year or less is $274,818,000. Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

Except for equity swaps and futures, the maximum capital risk resulting from financial instruments is determined by the fair value of financial instruments. Potential losses from equity swaps and futures are limited to available capital. The risk management guidelines adopted are designed to minimise liquidity risk through:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

NOTES TO THE FINANCIAL STATEMENTS
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Note 16. Financial Risk Management Continued

Liquidity risk Continued

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

Fair value of financial instruments

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

Capital risk management

The Company considers its capital to comprise ordinary share capital, reserves and over-time, accumulated retained profits.

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the Asian Region ex Japan, so to continue to provide returns to shareholders.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules requirements. For example, the Company must report its NAV to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

Note 17. Fair Value Measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the Company to classify those assets and liabilities measured at fair value using the following fair value hierarchy model:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Note 17. Fair Value Measurement Continued

Fair value hierarchy Continued

The Company 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; and

(iii) Foreign currency forward contracts.

The following table details the Company's assets and liabilities, measured or disclosed at fair value, using the three level hierarchy model. The Company had no assets or liabilities that were classified as Level 3.

2016	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Assets			
Equity securities	208,462	19,636	228,098
Derivatives	–	158	158
Foreign currency forward contracts	–	1,842	1,842
Total assets	208,462	21,636	230,098
Liabilities			
Derivatives	–	23	23
Foreign currency forward contracts	–	1,634	1,634
Total liabilities	–	1,657	1,657

All figures presented above can be reconciled to Note 4 or Note 5 and appear in the statement of financial position.

The Company'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 for the period.

Rationale for classification of assets and liabilities as Level 1

At 30 June 2016, 91% of the equity securities held by the Company were valued using unadjusted quoted prices in active markets and were classified as Level 1 in the fair-value hierarchy model.

NOTES TO THE FINANCIAL STATEMENTS
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Note 17. Fair Value Measurement Continued

Rationale for classification of assets and liabilities as Level 2

There were certain financial instruments that were classified as Level 2, because a degree of adjustment has been made to the quoted price i.e., whilst all significant inputs required for fair value measurement are observable and quoted in an active market, there was a degree of estimation involved in deriving the fair value. Examples include:

(i) Foreign currency forward 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) Participatory Notes were classified as Level 2 because they were generally traded Over-The-Counter (OTC) and were often priced in a different currency to the underlying security; and

(iii) OTC equity swap contracts were classified as Level 2 because the swap contract itself was not listed and therefore there was no directly observable market price; or the price is sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) could be verified directly from Bloomberg or verified using option pricing models.

Note 18. Offsetting of Financial Assets and Financial Liabilities

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other, if:

(i) there is a legally enforceable right to set-off the financial asset and financial liability; and

(ii) the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial 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 following table:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
2016	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENTS[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
Derivatives	158	–	158	(23)	–	135
Foreign currency forward contracts	2,241	(399)	1,842	(1,634)	(208)	–
Financial liabilities						
Derivatives	23	–	23	(23)	–	–
Foreign currency forward contracts	2,033	(399)	1,634	(1,634)	–	–

1. Shows the impact of arrangements between the Company 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 are not currently enforceable.

NOTES TO THE FINANCIAL STATEMENTS
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Note 19. Investment Manager

The Investment Manager, Platinum Investment Management Limited, receives a monthly management fee for investment management services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.1% per annum of the adjusted portfolio value (which includes cash and deposits).

In the event of termination, Platinum Investment Management Limited will be paid a 1.1% lump sum termination fee. In addition, the Agreement specifies a final management fee is payable at a rate of 1.1% per annum, calculated pro rata in respect of periods of less than one calendar month. Hence, at the time of termination, Platinum Investment Management Limited will be paid both a final management fee for the period between the last period of calculation and the termination date and a lump sum termination fee.

A performance fee is payable at 15%, at 30 June, of the amount by which the portfolio's annual performance exceeds the return achieved by the benchmark (benchmark is the Morgan Stanley All Country Asia ex Japan Net Index in A$). Where the portfolio's annual performance is less than the benchmark, the amount of the underperformance is aggregated, carried forward and deducted from the annual performance in the subsequent year before calculating any performance fee for that year. The aggregate of underperformance is carried forward until a performance fee becomes payable.

At 30 June 2016, pre-tax performance of the portfolio was negative 4.30% and the corresponding benchmark was negative 0.16%. This represents an underperformance of 4.14% against the benchmark. Accordingly, a performance fee has not been paid and this underperformance will be carried forward.

Management fees paid and payable for the year ending 30 June 2016 are shown below:

	2016 $'000
Management fee	2,398

Note 19. Investment Manager Continued

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

(a) The terms of the Agreement require Platinum Investment Management Limited to:

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

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

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

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

(b) The initial term of the Agreement is 10 years. However, the Company may immediately terminate the Agreement where Platinum Investment Management Limited:

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

 (ii) goes into liquidation;

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

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

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

 (vi) ceases to be licensed under the relevant law or its licence is suspended by ASIC or it is unable to carry out its duties under this Agreement because it has ceased to hold necessary legal authorisations to operate as an Investment Manager.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 20. Key Management Personnel Disclosures

Details of remuneration paid to the Non-executive Directors disclosed in the statement of profit or loss and other comprehensive income (and the Remuneration Report) and in aggregate terms was $189,729.

Interests of Directors in securities

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

	OPENING BALANCE (DATE OF INCORPORATION)	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	1	250,000	–	250,001
Ian Hunter	1	100,000	–	100,001
Malcolm Halstead	1	–	–	1

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

	OPENING BALANCE (DATE OF INCORPORATION)	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	–	250,000	–	250,000
Ian Hunter	–	100,000	–	100,000
Malcolm Halstead	–	–	–	–

Note 21. Remuneration of Auditors

During the period, the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	2016 $'000
Audit services – PricewaterhouseCoopers	
Audit and review of the financial statements	105,000
Other services – PricewaterhouseCoopers	
Taxation services	20,770
	125,770
IPO Due Diligence services – Investigating Accountant and taxation services (disclosed as a transaction cost in relation to the IPO and deducted against equity – refer to Note 8)	99,466
	225,236

Note 22. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2016. The Company has no commitments for uncalled share capital on investments.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2016

Note 23. Related Party Transactions

Management fees

Disclosures relating to management fees paid and payable by Platinum Investment Management Limited are set out in Note 19.

Administration fees

Under the Administration Agreement, Platinum Investment Management Limited provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. The services provided extend to liaison with the share registry to ensure that accurate share records are maintained and services are provided to shareholders in a timely and efficient manner. In consideration for providing these services, Platinum Investment Management Limited received a payment of $1 from the Company.

Investment

At 30 June 2016, Platinum Investment Management Limited (PIML) held 50 million shares and 50 million options in the Company. At 30 June 2016, the shares were valued at $0.885 per share and the options were valued at 1.6 cents per option. Therefore, the total fair value of PIMLs investment was $44,250,000 for the shares and $800,000 for the options.

Key management personnel

Disclosures relating to key management personnel are set out in Note 20 and the Remuneration Report in the Directors' Report.

Loans to/from related parties

There were no loans to or from related parties at reporting date.

Note 24. Events After the Reporting Period

No significant matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. The Company

Platinum Asia Investments Limited is a company limited by shares, incorporated and domiciled in New South Wales. Its current registered office and principal place of business is:

Level 8, 7 Macquarie Place
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report.

DIRECTORS' DECLARATION
30 JUNE 2016

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 Company's financial position as at 30 June 2016 and of its performance for the period 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 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Bruce Coleman
Chairman

Ian Hunter
Director

17 August 2016
Sydney

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASIA INVESTMENTS LIMITED

pwc

Report on the Financial Report

We have audited the accompanying financial report of Platinum Asia Investments Limited (the Company), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from 24 June 2015 to 30 June 2016, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

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 as issued by the International Accounting Standards Board.

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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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 Company'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 Company'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 Asia Investments Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the period from 24 June 2015 to 30 June 2016; and

  (ii) complying with Australian Accounting Standards 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 ASIA INVESTMENTS LIMITED

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 19 of the Directors' Report for the period from 24 June 2015 to 30 June 2016. 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 Asia Investments Limited for the period from 24 June 2015 to 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney, 17 August 2016

Changing Mindsets
for a Changing China

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

WRITTEN BY:
Connie Chan, *Partner at Andreessen Horowitz*

ILLUSTRATED BY:
Takashi Kawakami (vision track)

Western companies have invested in China and enjoyed the benefits of its Reform and Opening-Up for more than thirty years.

Doubts and hesitations, however, began to dominate the thinking of many in the past year owing to China's slowing economy, tightened regulations and changing labour force. But as seasoned venture capital investor Connie Chan writes, China is still brimming with opportunities. To spot them, what one needs are new ways of thinking that are attuned to the fast-changing Middle Kingdom.

MINDSETS FOR THINKING ABOUT INNOVATION IN -- AND COMPETITION FROM -- CHINA

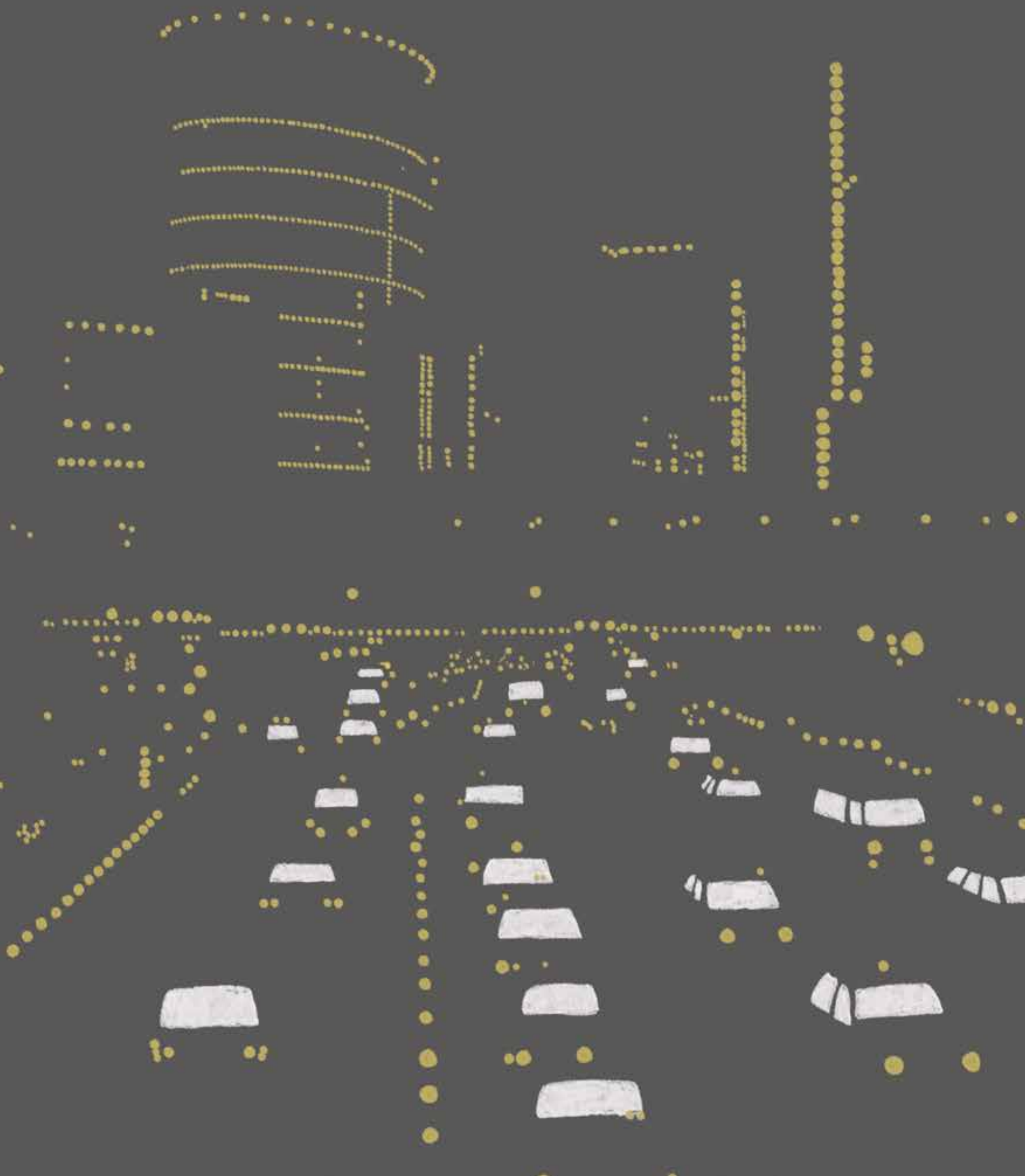
China has been in the headlines lately for the ongoing acceleration of its capital outflows and concerns over the reliability of its reported economic data.

As various businesses and investors hastily adjust their forecasts and expectations, to me, this period of uncertainty represents an opportunity for U.S. companies: To take the time to learn, reflect, and consider what their China strategy *should* be.

But first, doing business with — or in — China requires understanding nuances that go beyond the stats and typical headlines. Until now, most entrepreneurs and commenters have been so focused on the obvious market size opportunity that they often forget the less obvious reason to study China: That there is much to learn *from*, not just *about*, Chinese companies. This includes everything from redefining how we think of innovation and how internet companies can monetize beyond advertising revenue to lessons on how startups can scale in a hyper-urban environment.

Frankly, while China is behind the U.S. in areas like enterprise SaaS, augmented reality, VR, and healthcare, it can provide a glimpse of the future in other areas, such as mobile payments; transportation; O2O or "online to offline" commerce (coined by my a16z partner Alex Rampell and popular in China); ecommerce and travel.

Ultimately, however, learning from China involves rethinking our mindsets around it ... beginning with how to be open to learning from China in the first place, to preparing for future competition from there as Chinese companies aim to realize their global ambitions.



MINDSET #1:
Rethinking the definition of "innovation"

A long-held and common belief about Chinese, Indian, African, and other non-Western internet companies is that they are just copycats of U.S. counterparts. Even the language we (and sometimes they, too) use propagates this misconception: e.g., Alibaba as the "eBay of China"; Flipkart as the "Amazon of India"; the "Groupon of Iran", and so on.

Derivatively calling a company the "X brand (we're familiar with) of Y country" tricks us into thinking that those companies are just clones of the original U.S. company. Yet the reality is there's a ton of grit and creative thinking that led the entrepreneurs behind Alibaba and others to build their companies the way they did. Furthermore, examples of international companies leading — not just following — U.S. innovation now abound, from messaging app WeChat to drone manufacturer DJI in China alone.

There are also a number of enabling conditions that make Chinese companies do things in a way that U.S. companies aren't forced to.

For example, the *speed* at which things move in China is unprecedented, and the sheer number of people makes it an eat-or-be-eaten environment that urges forward momentum in all things and at any cost. Chinese companies are therefore used to lightning-fast execution, shorter product cycles, and letting a thousand experiments bloom (even if 999 of them fail and have to be ripped out!). I believe that U.S. companies should closely watch all these Chinese experiments play out — not just to inspire their own experiments, but as proxies to focus their own efforts directionally.

Now, some may argue that many of these innovations are really just "incremental" (as compared to 10x magnitude leaps or moonshots). But when compounded, seemingly incremental improvements can lead to bigger things in their own right. Especially when combined with a mobile-first ecosystem.

Take the example of Chinese online travel provider C-trip, which not only offers flight and hotel bookings but insurance and visas as well. Because over 70% of its online transactions are mobile, the company thinks deeply about the needs of mobile travelers. So in 2015, C-trip launched a "virtual tour manager" program, where it creates WeChat messaging groups for individual travelers heading to the same city around the same time. Each of these groups are administered by a human tour guide who helps book restaurants, looks up traffic patterns on travel routes, and sends alerts in case of emergencies (about earthquakes, attacks, etc.) — all in Mandarin Chinese.

This service is now live for over 100 countries. It's an example of a Chinese tech company stretching its creativity to meet unarticulated user needs. But what if this small customer service innovation led to an entirely new kind of communication model, one that facilitates communication among complete strangers? And on a far more intimate platform — something normally reserved for friends, families, and close-ties groups — than on the likes of Sina Weibo or Twitter? If so, the resulting changes in social behaviors could be profound.

Another example of a seemingly incremental innovation that could have significant consequences comes from Didi, China's leading ride-hailing service. The company, which provided 1.4 billion rides in 2015, installed touchscreen booths — really, gigantic tablets mounted on displays — all around Shanghai so that people (especially the elderly) could still hail a Didi car without having a smartphone.

It's a convenient but relatively minor service. Yet if this kind of thing spread, it could reshape the way entire cities look, as public surfaces everywhere become the "shared phone screen" (i.e., instead of something held as a central command center only in an individual's hands).

Beyond such product inspiration, there are incremental business model (not just tech) experiments that can change century-old practices — like reading and storytelling — in potentially far-reaching ways. Consider China's largest online/ebook publishing company, Yuewen Group, which has over three million digital books in its catalogue. More notable than the scale here however is how the company monetizes: Chinese readers can pay *per every 1000 words* (sort of like by chapter), and have been able to do so for more than half a decade.

Not only does this micro-transaction model encourage more readers to sample more e-books while providing instant revenue to writers (who can begin selling a book right after the first chapter is completed), the collected data can help TV producers make series-optioning decisions at a more granular level. But the unintended consequence of all this is that authors with extremely popular books never want the story to end, changing the narrative significantly. Over time, it could even change the act of storytelling altogether; it's not unlike what's already happening in the U.S. with shows like Game of Thrones or with binge watching/streaming leading to an entirely new genre of entertainment.

More broadly speaking, Yuewen is also an example of how Chinese and Western users monetize differently across multiple tech categories. For instance, less than 20% of Tencent's (the creator of WeChat) revenues come from advertising compared to over 95% for Facebook's revenue.

In fact, most large consumer mobile companies in China (and elsewhere around the world) do not rely on advertising as their primary source of revenue; they focus on transactions instead.

Chinese internet companies have therefore experimented with numerous non-advertising business models including in-app or in-game fees, other microtransaction models, free-to-play, and more. For a U.S. company that was previously monetizing only via ads, studying its Chinese counterpart could reveal alternative ways of generating revenue so it's less dependent on advertising as many U.S. internet companies are.

VI

MINDSET #2
Rethinking scale, and scaling

Despite conflicting views on the actual growth rate of the Chinese economy, no one would question the growth rate of China's population!

When we read headlines about tech companies in China, the true scale of the reported user stats often get lost in translation. Part of this is because most people — journalists and readers alike — have simply not been exposed to such population density. And as with other classic estimation experiments, people are just really bad at imagining (let alone visualizing) the true magnitude of things they haven't experienced personally.

To put it bluntly, a company that has reached 1 million registered users in China hasn't really "cracked" China; for instance, if Tencent had a product with just five million monthly active users in China, it might consider shutting the app down!

Now, to be fair, reaching a million users is an achievement to be celebrated. And even relatively smaller numbers compared to the actual size of the Chinese market can yield huge business gains. But it's important to keep the numbers in perspective…

China has a *lot* of people. Shanghai and Beijing alone have 20 million residents, each. Compare this to New York City's population (8.4 million), Los Angeles' (3.9 million), and San Francisco's (less than 1 million). And while some ghost towns do exist in China, there are still 1.3 billion people in China; if you took China's total population and subtracted out the entire population of the United States, you would *still* have a billion people left.

Now tack on the news that China is committed to moving 100 million Chinese people from rural farming regions into more urban regions in the next five years. Beijing, Shanghai, and other major cities in China continue to face hyper-urbanization issues that will force them to go where no other modern city has gone before. Already, China's biggest cities are overflowing to such a point that license plates are distributed via a lottery system to control the number of cars on the road. This has been the case in Beijing since 2011, and in Shanghai since 2013.

Meanwhile, in mobile, China Mobile apparently has (as of the end of last year) nearly as many 4G mobile subscribers as the *entire* U.S. population. Not to mention nearly three times as many total customers as there are people in the U.S.

China is thus an ideal place for startups to find all sorts of insights on user behaviors at scale, whether one believes in the concepts of "blitzscaling" or not.

Watching Chinese experiments play out also helps indicate what new problems (and solutions) will arise in urban centers around the world — especially on the transportation, logistics, and infrastructure front — as they, too, become more densely populated.

If being first to scale is indeed more important than being first to market, what better place to study scaling strategies than in China, a country with a population of 1.3 billion people?

MINDSET #3
Rethinking the nature of competition

Last year, investors both in and out of China deployed $37 billion into Chinese startups (more than double 2014 and more than 8x of 2013). We can debate the record speed of new businesses being created, observe the problem of overfunding at the seed stage (and subsequent difficulty of meeting milestones later), or question private valuations of specific companies. But one thing is undisputable: Many startups in China are getting funded in some form or another.

Why does this matter? Simply put, if a startup is an experiment in a new way of doing things, then that means *many* experiments in China are happening overall. While it's true that more global funding went into U.S. startups in 2015, the U.S. and Chinese startup ecosystems are different. Both ecosystems may have a winner-take-all dynamic, but that dynamic is far more intense in China. This results in far more trial-and-error — as well as rapid product cycles — as companies attempt to win market share from each other, quickly. Such rapid experimentation in turn leads to much faster change, willingness to accept and allow faster company deaths, and faster potential breakaway hits.

When you take this environment of experimentation, supported by so much funding, and combine it with a "Chinese" work ethic and talent base, it results in a "multiplier" effect of sorts. To break the components of that effect down further:

WAR GAMES MINDSET

Company executives in China are trained, at the outset, to think in terms of war analogies, with the ultimate goal of outlasting the competition. This mindset leads to a sort of Hunger Games-like paranoia where "only the paranoid survive" (to borrow Andy Grove's phrase), which in turn drives continual improvement, results in more experiments as described above, and gives Chinese companies more *optionality* than Western companies. Finally, since entrepreneurs are always under direct attack from competitors, they are groomed to fight defensively and offensively. Even PR is used as a weapon: For instance, funding announcements are made (and sometimes inflated) to discourage investors from backing competitors.

WORK ETHIC

The average number of hours worked in China per worker in 2015 was 2,432 hours and 1,767 in the U.S. (Germany, meanwhile, comes in at 1,372 and France at 1,495). On average, the Chinese worker is likely working more than the U.S. worker; note however that this data includes factory workers and does not measure efficiency of work. Regardless, labor is obviously cheap in China.

Furthermore, a standard workday in China is 9AM to 9PM, and a standard work-week is 6 days long, from Monday through Saturday. This schedule is not just for a special event or right before a product launch; it's the norm in China. In the same way that people hypothesize that Europe is lagging behind the U.S. due to a different work ethic (among other policy reasons), the same could one day be argued of China and the United States.

TALENT LANDSCAPE

The talent landscape in China for engineers has changed so drastically in the last few years that some Chinese companies are actually coming to Silicon Valley to hire big data engineers because they are "cheaper" here. While so far limited to the big data space, this is a huge inversion of the traditional outsourcing model! Meanwhile, many Chinese tech companies appear bloated compared to their U.S. counterparts because they have many more employees including engineers. This is because companies in China can't afford to wait to hire that elusive 10x engineer. Instead of risking falling behind, they'll just hire the 10 engineers they can hire today (even if less skilled) to get the job done faster. This mentality applies to international expansion as well.

It's a mistake to think this phenomenon is all about quality of talent: It's really about the pace of competition. That's the salient point here.

So why does any of this matter to anyone outside China? Because not only are a ton of companies — and experiments — in China getting funded, they're run in an intense environment. The result of this intense Darwinian struggle for survival is that the species that survives is *very* fit. Those surviving companies will become formidable global players, which is why I think it's worth learning from — and possibly partnering with — them now. Eventually, as Chinese companies enter the global arena, all U.S. startups will need to compete in such an intense environment or learn to stay ahead in other ways regardless of whether or not they enter China.

MINDSET #4:
Rethinking what 'local' advantage means

When eBay entered China, Alibaba founder and chairman Jack Ma described it as "a shark in the ocean". He said, "I am a crocodile in the Yangtze River. If we fight in the ocean, we lose, but if we fight in the river, we win."

What Ma meant was that he understood the smaller Chinese merchants and consumers far better than eBay did; this included everything from where to find them to how to keep them engaged. Ma's local competitor to eBay, Taobao, used TV ads and *door-to-door* sales reps instead of internet-based advertising. It made listings more customer- vs. product-centric. It optimized its marketplace model for Chinese notions of trust.

Unfortunately, when many entrepreneurs discuss "local" understanding or localization of their offerings, they tend to focus on things like the color palette, logo, design layout, language, even etiquette.

All of which matters, but ignores fundamental insights about customers that take form in many other specific yet subtle ways.

For example: Chinese consumers really, really, *really* love deals and discounts. Even if a particular U.S. startup doesn't offer discounts for its product, it should consider doing so in China (though obviously not at the expense of its unit economics!) — especially around the holidays. Similarly, even if it feels cheesy or passé to a U.S. audience, companies doing business in China should recognize how effective celebrity endorsements and physical billboard or elevator poster advertising are. And so on.

Another example of local advantage — but at a global scale — plays out in emerging economies. U.S. companies are more adept than Chinese ones at designing high-tech products for a demographic that closely resembles Western Europe. But Chinese companies can more quickly gain market share in emerging economies (like those in Africa, Eastern Europe, and Southeast Asia) since they are *already* experts in serving a user base that is mobile-first and Android-centric; limited in bandwidth or power; highly engaged and motivated by entertainment apps; hyper-urbanized; young in internet use; and so on.

In short, there will likely be not one but two stables of "unicorns": one in the Western world, and one stabled in China and developing regions. Because even if many of these developing regions have far more in common *ideologically* with the U.S. than with China, Chinese companies could still win in those markets for the reasons I just outlined.

This suggests a paradox: U.S. companies' greatest competition isn't their local competitor but their counterpart abroad, wherever they are — the international #1, not just the local #2.

And sometimes the competition isn't obvious but lying latent in wait. An example of this is Cheetah Mobile, the creator of CM Security, Clean Master, Battery Doctor, and other smartphone apps. Across its suite of utility apps, Cheetah reportedly has 567 million MAUs — 74% of which are *not* in China. Cheetah took its product (which was already refined and robust from Chinese users heavily pounding away at it), localized it for the rest of the world with very little extra work, and quickly grabbed global market share. In fact, 4 of the top 5 free apps in the U.S. Google Play store tools category are apps that originated in China. This isn't just happening in the "invisible" **tools** category; right now, 3 of the top 10 free apps in the **photography** category on the U.S. Google Play store are also made in China.

Many of the examples I share are anecdotal, because I'm arguing for two kinds of learning from China: passively watching (as described in the first two mindsets above), and/or actively learning to prepare for the competition (as described in the last two mindsets).

Whatever else one thinks of China, we need to accept that:

- Chinese companies are truly innovating, not just copying — if not in tech, then certainly in product, path to market, or monetization;
- Chinese companies are hyperscaling more intensely than U.S. counterparts because the TAM is much larger;
- Lots of Chinese companies are getting funded and competing in a super intense way (through a combination of long hours and "we're at war" mentality) — so winners will emerge very strong; and
- Chinese companies can serve as *both* a source of inspiration in the short term and as a formidable source of competition in the future (and part of the art of partnering with them is realizing this; more on that later).

The government, of course, plays a role here for better or worse. For example, it is mandating that companies expand globally. Starting this year, the government will also create incentives for high-tech investors to take even larger risks on startups, which changes the risk:reward ratio.

Either way, the outcomes don't change much for us. It just means more global ambitions and experiments keep getting funded. (And even if they don't survive to the next stage, those learnings will cycle through the Chinese startup ecosystem in some form, manifesting themselves in later companies as is the case in startup ecosystems all over the world.)

Now, none of this is intended to alarm or make us double up our workloads. There are unique attributes of Silicon Valley that enable it to continually innovate that other parts of the world haven't really been able to replicate. This is simply a call for U.S. companies to critically evaluate how they match up against their competitors in China, to take that competition more seriously than ever, and really learn from them.

When considering their true competition, most U.S. companies intuitively list their domestic and local counterparts only. But does it only matter that one is faster than the second or third athlete in the race — or does it matter more that they know where the finish line is? In that sense, why should the #1 company in the U.S. only watch players #2 and #3 in their home market when it can also study (and possibly even partner with) its #1 counterpart in China or elsewhere? To me, "competition" isn't just about who is taking market share away from you in that moment or place; it's about who can help inspire your roadmap, who can really help drive you *forward*. That's what innovation is after all: It's about finding a better way of doing things.

From Forbes.com, Feb 5, 2016.