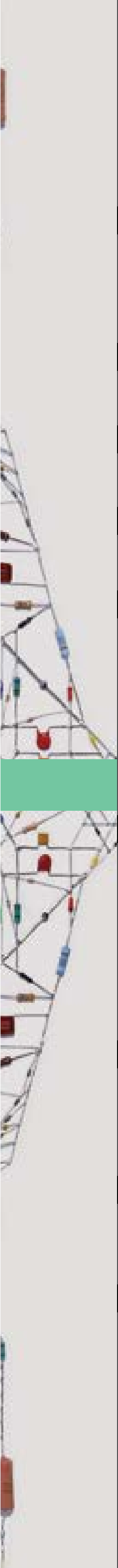
Platinum®
CAPITAL LIMITED

ANNUAL REPORT 2014

PLATINUM CAPITAL LIMITED
ABN 51 063 975 431



DIRECTORS

Bruce Phillips
Bruce Coleman
Richard Morath
Kerr Neilson
Andrew Clifford
Philip Howard

COMPANY SECRETARY

Philip Howard

INVESTMENT MANAGER

Platinum Investment Management Limited

SHAREHOLDER LIAISON

Liz Norman

REGISTERED OFFICE

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

SHARE REGISTRAR

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

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

AUDITOR & TAXATION ADVISOR

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

SECURITIES EXCHANGE LISTING

Ordinary Shares listed on the Australian Securities Exchange
ASX Code: **PMC**

WEBSITE

www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/

Platinum Asset Management® does neither guarantee the repayment of capital nor the investment performance of the Company.

CONTENTS

CHAIRMAN'S REPORT

Investment Performance

I am pleased to report that Platinum Capital Limited has had another very solid year. The Company remains an excellent long-term investment, supported by the payment of fully-franked dividends over time.

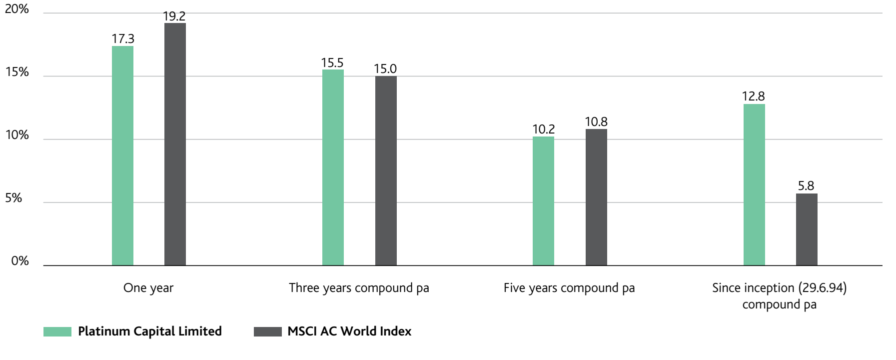
In the year ending 30 June 2014, Platinum Capital's net asset value (NAV) increased by 17.26% pre-tax, slightly below the 19.24% gain of the benchmark Morgan Stanley Capital International All Country World Net Index [MSCI] in Australian Dollar terms. After allowing for all tax liabilities, both realised and unrealised, the Company's NAV increased by 13.18%.

Perhaps most pleasing was that total shareholder return, measured in terms of Company share price plus dividends paid, was 27.24% for the 12 months to 30 June 2014.

2014 represented the Company's 20 year anniversary and the Company's long-term track record has been very sound. Since inception, the compound annual appreciation of the Company's net assets on a pre-tax basis has been 12.83% per annum compared to the return from the MSCI World Index of 5.85%. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.39% annually over the same 20 years.

Your board believes that the proven track record over the short-term, medium-term and long-term demonstrates that opportunities and rewards are there for patient investors.

PLATINUM CAPITAL LIMITED – PRE-TAX NET ASSET VALUE RETURN VERSUS MSCI INDEX* TO 30 JUNE 2014 (%)



**Morgan Stanley Capital International All Country World Net Index*
Note: Pre-tax NAV return is after the deduction of management fees
Source: Platinum and MSCI

Financial Results and Accounting Standards

For the year ended 30 June 2014, the Company made a statutory pre-tax operating profit of $46.2 million and a post-tax operating profit of $32.9 million. Whilst this represents a decline in statutory profit from the previous year, it is important to recognise the significant achievement in being able to build on last year's result.

However, 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 recorded statutory profits from any one year to the next.

Therefore, despite the profits made this year, your Directors continue to maintain that a more appropriate measure of the Company's results is the change in its pre-tax NAV adjusted for dividends. On this measure, the Company's pre-tax net asset value increased by 8.93% to $1.64 per share during the year.

Dividends

The Company is pleased to report that a fully-franked dividend of 5 cents will be paid for the year ended 30 June 2014, making 8 cents for the full year.

The Board is very mindful of the fact that the company tax rate is likely to be reduced from its current rate of 30 per cent to 28.5 per cent with effect from income years beginning on or after 1 July 2015. This provides two opportunities to utilise the existing franking account credits before this date.

The Company continues its policy of dividend smoothing and does its best to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future. The ability to generate fully-franked dividends will continue to be dependent on the Company's ability to generate realised profits and pay tax.

CHAIRMAN'S REPORT
Continued

Capital Management
The Directors continue to monitor the Company's share price discount or premium to its pre-tax NAV and any significant divergence may result in a share buy-back programme or rights issue in the future.

The Company announced a two-part capital raising comprising a placement of shares to sophisticated and professional investors and a 1:5 pro-rata non-renounceable rights offer to eligible shareholders on 11 November 2013. The purpose of the capital raising was primarily to allow the Company to add capital to its investment portfolio and to take advantage of a number of interesting global investment opportunities existing in global markets.

Under the Placement, 25,044,183 additional shares were issued and 38,401,081 additional shares were issued under the Rights Offer. The two-part capital raising raised gross proceeds of $98,340,159 through the issue of 63,445,264 additional shares and this increased issued share capital by 38 per cent. The Company invested the proceeds of the capital raising in accordance with its well-tested investment approach of searching for undervalued securities across the world.

The liquidity of the company's stock on the ASX was a factor in the consideration of the two-part capital raising. It is worth noting that the liquidity of the company's stock has increased post the capital raising and has remained so since the capital raising.

The Board was very pleased with the success of the capital raising and the investments we have made with the funds raised. The Placement was heavily over-subscribed and, if the market conditions are appropriate, the Board will consider doing more capital raisings in the future.

Corporate Governance
As shareholders are aware, Platinum Capital's funds are ultimately managed by Platinum Investment Management Limited through two key agreements previously approved by shareholders; the Investment Management Agreement and the Administration Services Agreement.

In the past year, the independent directors are again pleased to report they have continued to monitor the performance of the Investment Manager and its adherence to the agreements with the full and transparent co-operation of Platinum Asset Management and its management team. We are accordingly confident in the integrity and reporting of the Company's financial results to shareholders.

Outlook for 2014-2015

As highlighted recently by our Investment Manager, "we remain optimistic and are shifting the weight of the portfolio to the East. Growth in the Western hemisphere is gaining impetus and higher share prices can co-exist with higher rates on account of dissipating economic risks. For now, inflation and credit markets risks appear subdued.

The engagement of reform in the world's two most populous nations (India and China) underpins our belief in the durability of global growth. That there will be setbacks is likely, but, in the case of China, the domestic stock market has been in a severe downward trend for over six years and valuations are almost half of those in the Western hemisphere for an economy that is growing twice as fast! Other markets in Asia are equally interesting and we are finding companies we want to own."

Finally

The performance of the Company is a tribute to the skill and expertise of the investment manager, so I wish to express my appreciation of the outstanding contribution made by Kerr Neilson, Andrew Clifford and their team over the last year.

Bruce Phillips
Chairman
Sydney, 14 August 2014

FINANCIAL STATEMENTS 2014

Platinum Capital Limited

SHAREHOLDER INFORMATION

Substantial Shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 8 August 2014.

Distribution of Securities

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	919
1,001 – 5,000	2,444
5,001 – 10,000	2,311
10,001 – 100,000	4,980
100,001 and over	276
Total number of holders	10,930
(ii) Number of holders of less than a marketable parcel	478
(iii) Percentage held by the 20 largest holders	9.87%

Twenty Largest Shareholders

The names of the twenty largest holders of listed equity securities as at 8 August 2014 are listed below:

	NUMBER OF SHARES	%
Citicorp Nominees Pty Limited	2,706,836	1.17
K Neilson	1,977,646	0.86
HSBC Custody Nominees (Australia) Limited	1,900,267	0.82
Moya Pty Limited	1,694,406	0.73
UBS Wealth Management Australia Nominees Pty Limited	1,381,099	0.60
JP Morgan Nominees Australia Limited	1,302,346	0.56
Nulis Nominees (Australia) Limited	1,274,826	0.55
Navigator Australia Limited	1,070,734	0.46
Forsyth Barr Custodians Limited	1,048,450	0.45
Australian Executor Trustees Limited	1,026,596	0.44
SCJ Pty Limited	1,000,000	0.43
National Nominees Limited	896,550	0.39
Questor Financial Services Limited	773,965	0.34
Netherfield Nominees Pty Limited	750,000	0.33
Feboco Investments Pty Limited	709,870	0.31
Yarrandi Investments Pty Limited	693,432	0.30
Brispot Nominees Pty Limited	688,148	0.30
Rogand Superannuation Pty Limited	650,000	0.28
HSBC Custody Nominees (Australia) Limited a/c 2	635,144	0.28
I T Heffernan Pty Limited	630,000	0.27

SHAREHOLDER INFORMATION
Continued

Voting Rights

Ordinary Shares

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

Company's Commitment to Climate Action

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

Distribution of Annual Report to Shareholders

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

Financial Calendar

Ordinary shares trade ex-dividend	21 August 2014
Record (books close) date for final dividend	25 August 2014
Final dividend paid	8 September 2014
Annual General Meeting	30 October 2014

These dates are indicative and may be changed.

Questions at AGM

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

INVESTMENT METHODOLOGY

Platinum Capital 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 pays shareholders dividends (usually fully-franked) where possible. This feature distinguishes it from managed investment trust products.

The Company delegates the investment function to Platinum Investment Management Limited (trading as Platinum Asset Management) (the Manager). This entity employs an investment team that manages the investments of the Company. These are two discrete legal entities. As a shareholder in the Company, you have no interest/ownership in Platinum Investment Management Limited or its listed parent, Platinum Asset Management Limited.

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

Platinum Asset Management seeks a broad range of investments globally whose businesses and growth prospects, it believes, are being inappropriately valued by the market. By using themes and an industry focus, the portfolio is built up through individual stock selection. Consideration of the macro environment, as well as careful evaluation of how the stock will fit and function in the portfolio, is also important.

By locating the research efforts together in one place, Platinum Asset Management facilitates the cross pollination of ideas that is possible with the 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 and key areas.

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" the investment decision, as well as add accountability to the process. Implementation of investment decisions is also given detailed attention, as is the ongoing review and monitoring of the portfolio.

For a more detailed look at Platinum Asset Management's investment process, we would encourage you to visit Platinum's website at the following link: https://www.platinum.com.au/About-Us/Investment-Process/

DIRECTORS' REPORT

In respect of the year ended 30 June 2014, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

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

Bruce Phillips	(Chairman and Non-Executive Director)
Bruce Coleman	(Non-Executive Director)
Richard Morath	(Non-Executive Director)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Executive Director)
Philip Howard	(Finance Director and Company Secretary)

Principal Activity

The principal activity of the Company during the year was the investment of funds internationally into securities of companies, which are perceived by the Investment Manager to be undervalued.

Operating and Financial Review

The net profit before tax was $46,185,000 (2013: net profit before tax of $74,848,000) and net profit after tax of $32,885,000 (2013: net profit after tax of $58,802,000). Income tax expense for the year was $13,300,000 (2013: income tax expense of $16,046,000).

The Directors consider that pre-tax Net Asset Value (NAV) combined with the flow of dividends is a better measure of performance of the Company. For the 12 months to 30 June 2014, the Company's net assets on a pre-tax basis increased by 17.26%, slightly below the 19.24% gain of the benchmark Morgan Stanley World Index (MSCI).

The Company is in a strong financial position with an extremely strong balance sheet with few liabilities.

For the 12 months to 30 June 2014, the Company's pre-tax NAV increased by 8.93% to $1.64 per share and this increase is predominantly attributable to solid investment returns generated from the Company's investment portfolio. In addition, shareholders received two dividends during the year.

The Chairman's Report contains further information about the Company's performance and the outlook for 2014/2015.

Dividends

On 14 August 2014, the Directors declared a 5 cents per share ($11,554,000) fully-franked dividend payable to shareholders on 8 September 2014. A fully-franked dividend of 3 cents per share ($6,912,000) was paid on 10 March 2014.

A 5 cents per share ($8,293,000) fully-franked dividend was paid for the year ended 30 June 2013.

The dividend reinvestment plan (DRP) discount was reduced from a 5.0 per cent discount to a 2.5 per cent discount to the relevant share price.

Capital Raising

On 11 November 2013, the Company announced a two-part capital raising comprising a placement (Placement) of shares to sophisticated and professional investors and 1:5 pro-rata non-renounceable rights offer (Rights Offer) to eligible shareholders. The purpose of the capital raising was to allow the Company to take advantage of a number of interesting global investment opportunities.

Under the Placement, 25,044,183 additional shares were issued and under the Rights Offer 38,401,081 additional shares were issued. Together, the two-part capital raising raised gross proceeds of $98,340,159 through the issue of 63,445,264 additional shares and this increased issued share capital by 38%. The Company has invested the proceeds in accordance with its well-tested investment approach, searching for undervalued securities across the world.

Changes in the State of Affairs

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

Events Subsequent to the End of the Financial Year

Since the end of the financial year, the Directors are not aware of any matter or circumstance, not otherwise dealt with in this report or financial statements, that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, which is to increase the net asset value of the Company. The methods of operating the Company are not expected to change in the foreseeable future.

DIRECTORS' REPORT
Continued

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

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

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

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

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

	2014 $	2013 $
Audit services – statutory	**107,365**	98,150
Taxation services – compliance	**51,427**	44,967
Total	**158,792**	143,117

Auditor's Independence Declaration
A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Information on Directors
Bruce Phillips BSC (HONS)
Chairman since October 2009, Independent Non-Executive Director since March 2009 and member of the Audit and Risk Committee. (Age 59)

Mr Phillips has over 35 years of technical, financial and managerial experience in the global energy industry. He has worked on projects throughout Australasia, South America, the UK, Southeast Asia and East Africa. He founded AWE Limited in 1997 and was its Managing Director until 2007. He has been a Non-Executive Director of AGL Limited since 2007 and AWE Limited since 2009 and Chairman of AWE Limited since 2010. He was a Non-Executive Director of Sunshine Gas Limited from 2007 to 2008.

Bruce Coleman BSC, BCOM, CA, FFIN
Independent Non-Executive Director since April 2004 and member of the Audit and Risk Committee. (Age 64)

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

Richard Morath BA, FIAA, ASIA
Independent Non-Executive Director since March 2009 and Chairman of the Audit and Risk Committee. (Age 65)

Mr Morath has over 40 years experience in the funds management and banking industry. He currently holds several board positions with organisations that operate under the National Australia Group of companies. He is a Director of BNZ Life and JANA Investment Advisers Pty Limited and was appointed a Director of BNZ Investment Services Limited, effective 1 July 2013. Until 7 July 2014, he was Chairman and Director of Plum, the group vehicle providing member services to the corporate superannuation market. He is Chairman of GWM Advisor Services, the holder of dealer licences for all MLC financial planning companies, and Chairman of National Australia Trustees.

Kerr Neilson BCOM, ASIP
Managing Director for 20 years. (Age 64)

Appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Investment Management Limited, the Company's Investment Manager and Platinum Asset Management Limited. Prior to Platinum, Mr Neilson was an Executive Vice President at Bankers Trust Australia Limited. Previously, he worked in both the UK and South Africa in stock broking.

DIRECTORS' REPORT
Continued

Andrew Clifford BCOM (HONS)
Director for 20 years. (Age 48)

Appointed a Director of the Company upon incorporation. He is a Director and Chief Investment Officer of Platinum Asset Management Limited and Director of Platinum Investment Management Limited, the Company's Investment Manager. Prior to Platinum Investment Management Limited, Mr Clifford was a Vice President at Bankers Trust Australia Limited.

Philip Howard BCOM, CA
Finance Director and Company Secretary since March 2011. (Age 53)

Mr Howard is a Director of Platinum Investment Management Limited, the Company's Investment Manager and a Director of Platinum Asset Management Limited. Prior to being appointed a Director, Mr Howard was Platinum's Chief Operating Officer for nearly 10 years. Mr Howard is a Chartered Accountant with over 28 years of experience in the financial services industry. Prior to Platinum, Mr Howard has held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

Directors' Meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2014.

	BOARD MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS	
NAME	HELD WHILE A DIRECTOR	ATTENDED	HELD WHILE A MEMBER	ATTENDED
Bruce Phillips	8	8	4	4
Bruce Coleman	8	8	4	4
Richard Morath	8	8	4	4
Kerr Neilson	8	7	–	–
Andrew Clifford	8	8	–	–
Philip Howard	8	8	–	–

Remuneration Report (audited)

Executive Summary

- There are only three employees remunerated by the Company (the Non-Executive Directors).
- Other than the increase in the mandatory superannuation rate, there has been no increase in remuneration paid to Non-Executive Directors since 2003.
- The Company does not pay bonuses to any of its Directors.
- Despite the approval of shareholders to pay Non-Executive Directors remuneration up to $350,000 per annum, only $169,338 in aggregate was paid in 2014.
- The Executive Directors are not employed or paid by the Company. They are employed by Platinum Investment Management Limited, whose services are governed by the Investment Management Agreement and Administration Services Agreement with the Company.

Introduction

The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2014.

The information provided in this Remuneration Report 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 during the financial year were:

NAME	POSITION
Bruce Phillips	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Richard Morath	Non-Executive Director
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director
Philip Howard	Finance Director and Company Secretary

There are no employees within the Company, other than those disclosed above.

Shareholders' Approval of the 2013 Remuneration Report

A 25% or higher "no" vote on the Remuneration Report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed.

DIRECTORS' REPORT
Continued

At the last AGM, the Company received a "no" vote of 7.08%. This was well below the 25% threshold. Despite this low "no" vote, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

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

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, is $350,000 per annum (including superannuation). Despite the approval of shareholders to increase Non-Executive Directors remuneration up to $350,000 per annum, only $169,338 in aggregate was paid in 2014.

The Executive Directors determine the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The Non-Executive Directors are not entitled to any other remuneration.

Principles, Policy and Components of Non-Executive Director's Remuneration
Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced Directors.

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

Non-Executive Directors received a fixed fee and mandatory superannuation.

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

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

Remuneration for Non-Executive Directors

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

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Bruce Phillips					
FY 2014	55,000	5,088	–	–	60,088
FY 2013	55,000	4,950	–	–	59,950
Bruce Coleman					
FY 2014	50,000	4,625	–	–	54,625
FY 2013	50,000	4,500	–	–	54,500
Richard Morath					
FY 2014	50,000	4,625	–	–	54,625
FY 2013	50,000	4,500	–	–	54,500
Total Non-Executive remuneration					
FY 2014	155,000	14,338	–	–	169,338
FY 2013	155,000	13,950	–	–	168,950

The small increase in remuneration is attributable to the increase in the mandatory superannuation guarantee rate from 9.00% to 9.25%.

Executive Director Remuneration

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are employees of the Investment Manager, Platinum Investment Management Limited. The responsibilities that each of the Executive (and Non-Executive) Directors performs are outlined in the Corporate Governance Statement on pages 23 and 24.

The Executive Directors continue to waive their right to any fee and as a result the Company does not pay the Executive Directors any remuneration. The Company has never paid any remuneration to the Executive Directors and this waiver is consistent with the practice adopted in the past.

DIRECTORS' REPORT
Continued

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

- Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements.
- 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.
- Each contract is for an unlimited duration. The tenure of all 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.

Link between Company Performance and Remuneration Paid

	2014[2]	2013	2012	2011	2010[1]
Total net investment income/(loss) ($'000)	**53,662**	79,555	(10,970)	(8,271)	28,593
Expenses ($'000)	**7,477**	4,707	4,294	4,846	5,126
Profit/(loss) after tax ($'000)	**32,885**	58,802	(17,546)	(8,773)	17,235
Earnings per share (cents per share)	**16.22**	35.53	(10.59)	(5.35)	11.16
Dividends (cents per share)	**8.0**	7.0	–	5.9	10.0
Net asset value (pre-tax) (30 June) ($ per share)	**1.64**	1.51	1.07	1.19	1.36
Closing share price (30 June) ($)	**1.765**	1.45	0.97	1.16	1.42
Total fixed remuneration (salary and superannuation) paid ($)	**169,338**	168,950	168,950	168,950	200,071

(1) The difference in total Directors' remuneration above $168,950 in 2010 were caused by transitional Director movements, which raised the number of Non-Executive Directors above the core of three temporarily in parts of that year.

(2) The increase in expenses for 2014 was primarily due to the increased portfolio size and the impact that this had on those costs that move in line with the increased portfolio size.

Interests of Non-Executive and Executive Directors in shares

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

NAME	2013 QUANTITY	ACQUISITIONS	DISPOSALS	2014 QUANTITY
Bruce Phillips	429,985	85,997	–	515,982
Bruce Coleman	200,000	40,000	–	240,000
Richard Morath	27,000	5,400	–	32,400
Kerr Neilson	1,648,039	329,608	–	1,977,647
Andrew Clifford	1,412,006	282,401	–	1,694,407
Philip Howard	–	–	–	–

All Directors took up their full entitlement in the 1:5 pro-rata non-renounceable rights offer.

Directors' Interests in Contracts

The three Executive Directors are employees of and have a relevant interest in the Investment Manager and will receive a portion of the management fee. They do not receive any Directors' remuneration directly from the Company.

Directors' Insurance

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

Executives

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

Bruce Phillips
Chairman

Kerr Neilson
Director

Sydney, 14 August 2014

AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Platinum Capital Limited during the period.

Joe Sheeran
Partner
PricewaterhouseCoopers

14 August 2014

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

CORPORATE GOVERNANCE STATEMENT

Introduction

Platinum Capital Limited ABN 51 063 975 431 (the "Company") is a listed investment company on the Australian Securities Exchange ("ASX"). The objective of the Company is to seek long-term capital growth through utilising the skills of the Investment Manager and Administrator, Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management.

The Company has no employees other than its Non-Executive Directors. It has no premises, plant & equipment or other physical assets. The Company's investment activities are undertaken by Platinum Asset Management, in accordance with an Investment Management Agreement. The Company's day-to-day affairs are managed by Platinum Asset Management, in accordance with an Administrative Services Agreement.

The Company's main corporate governance practices are set out below and, unless otherwise stated, were in place for the entire year. The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments* 2nd edition ("Governance Principles"), except where indicated.

Company policies, charters and codes referred to in this Statement are provided on the Company's website at https://www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION 1.1 – Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

Role of the Board

The Board has adopted a Charter that details the functions and responsibilities of the Board.

The role of the Board is to promote the long-term health and prosperity of the Company.

Responsibilities of the Board

The principal responsibilities of the Board include:

– monitoring the financial position and performance of the Company;
– ensuring the appointed Investment Manager and Administrator is performing its duties in a skilful and diligent manner, employs qualified and experienced staff and operates appropriate risk monitoring and compliance procedures;
– overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement and Administrative Services Agreement;

CORPORATE GOVERNANCE STATEMENT
Continued

- ensuring the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted;
- identifying the principal risks faced by the Company and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- overseeing the integrity of the financial accounts and reporting;
- overseeing communications and reporting to shareholders;
- appointing the Chair and Board Committee members; and
- setting the charters of the delegated Committees of the Board.

RECOMMENDATION 1.2 – Companies should disclose the process for evaluating the performance of senior executives.

As the Company has no senior executives other than the Executive Directors of the Board and the Executive Directors are not remunerated by the Company, it is considered appropriate that their performance be assessed as part of the collective review outlined under Recommendation 2.5.

Principle 2: Structure the Board to add value

RECOMMENDATION 2.1 – A majority of the board should be independent directors.

Structure of the Board
The Board currently comprises six Directors: three Non-Executive Directors and three Executive Directors (including the Managing Director).

Non-Executive Directors: Bruce Phillips (Chair), Bruce Coleman, Richard Morath.

Executive Directors: Kerr Neilson (Managing Director), Andrew Clifford and Philip Howard.

The Board considers that equal representation is appropriate for the Company, given its size and purpose. The Non-Executive Chair has a casting vote where votes are tied.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report on pages 14 to 16.

Director Independence
All the current Non-Executive Directors of the Company have been assessed as independent. An independent Director is a Non-Executive Director that the Board considers to be independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement.

The Board regularly assesses the independence of each Director by taking into account the factors outlined below:

- the specific disclosures made by each Director as referred to below;
- where applicable, the related party dealings referable to each Director, noting whether those dealings are material under accounting standards;
- whether a Director is, or is associated directly with, a substantial shareholder of the Company;
- whether the Director has ever been employed by the Company or any of its subsidiaries;
- whether the Director is, or is associated with, a supplier, professional adviser, consultant to or customer of the Company, which is material under accounting standards; and
- whether the Director personally carries on any role for the Company other than as a Director of the Company.

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

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

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

Details of offices held by Directors with other organisations are set out in the Directors' Report on pages 14 to 16. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

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

Materiality
The Board determines "materiality" on both a quantitative and qualitative basis.
An item that either affects the Company's net assets by approximately 5% or affects the Company's distributable income in a forecast period by more than approximately 5% of the Company's net profit before tax is likely to be material. However, these quantitative

CORPORATE GOVERNANCE STATEMENT
Continued

measures must be supplemented with a qualitative examination. The facts (at the time) and the context in which the item arises will influence the determination of materiality.

Access to Information and Independent Advice
All Directors have unrestricted access to Company records and information.

The Investment Manager and Administrator provides regular information and reports to the Board (as requested).

The Board of Directors' Charter provides that the Directors may seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for reasonableness, but will not impede the seeking of advice.

RECOMMENDATION 2.2 – **The chair should be an independent director.**

The Chair of the Board is an independent Director.

The Chair is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. The Chair facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and between the Board and Management.

RECOMMENDATION 2.3 – **The roles of chair and chief executive officer should not be exercised by the same individual.**

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

The Managing Director is responsible for ensuring the terms of the Investment Management Agreement and Administrative Services Agreement are fulfilled by Platinum Asset Management.

RECOMMENDATION 2.4 – **The board should establish a nomination committee.**

Given the size and purpose of the Company, the Board considers a nomination committee is not warranted. The full Board considers the issues that would otherwise be a function of a nomination committee.

The Company's policy is that the Board considers an appropriate mix of skills, experience, expertise and diversity (including gender diversity).

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

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

The Board seeks to ensure that:

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

Under the terms of the Company's Constitution:

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

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

RECOMMENDATION 2.5 – **Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The Board of Directors' Charter requires:

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

CORPORATE GOVERNANCE STATEMENT
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The Board reviews its performance in terms of Company objectives, Company results and achievements of the Investment Manager and Administrator. The Board ensures each Director has the necessary skills, experience and expertise, and the mix remains appropriate for the Board to function effectively. As a result of these performance reviews, the Board may implement changes to improve the effectiveness of the Board and corporate governance structures. Independent professional advice may be sought as part of this process.

The Board undertook a review of its performance and that of its Committee during the year.

Principle 3: Promote ethical and responsible decision-making

RECOMMENDATION 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the code as to:

– the practices necessary to maintain confidence in the company's integrity;
– the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
– the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

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

Business Rules of Conduct
The Investment Manager and Administrator (Platinum Asset Management) has established Business Rules of Conduct applicable to its Directors and all applicable staff. It communicates the appropriate standards of behaviour, provides a framework for the workplace, and informs staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes.

All new employees of the Investment Manager and Administrator, receive induction training in relation to the Business Rules of Conduct and are asked to sign an annual declaration confirming their ongoing compliance.

Compliance is monitored by the Compliance team of the Investment Manager and Administrator.

RECOMMENDATION 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.

The Company's approach to business promotes a culture of equal opportunity and has the core principles of meritocracy based on ability, fairness and equality. The Company does not discriminate on gender, race, religion or cultural grounds.

As the Company has no full-time employees and given the size of the Board, a diversity policy has not been established under Recommendations 3.2 – 3.4. The Board's composition is reviewed on an annual basis. In the event a vacancy exists, the Board will include diversity in its selection process.

RECOMMENDATION 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with diversity policy and progress towards achieving them.

Refer to Recommendation 3.2.

RECOMMENDATION 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The Company has no full-time employees. There are no women on the Board.

RECOMMENDATION 3.5 – Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Directors' Code of Conduct and other corporate governance items are posted on the Company's website at https://www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/.

Departures from Recommendations 3.2, 3.3 and 3.4 are explained within their respective sections.

Principle 4: Safeguard integrity in financial reporting

RECOMMENDATION 4.1 – The board should establish an audit committee.

Audit and Risk Committee
The Board has established an Audit and Risk Committee. The purpose of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities relating to the financial reporting and accounting practices of the Company.

CORPORATE GOVERNANCE STATEMENT
Continued

Its key responsibilities are to:

- review and recommend to the Board the financial statements (including key financial and accounting principles adopted by the Company);
- review and monitor risks and the implementation of mitigation measures for those risks as appropriate;
- assess and recommend to the Board the appointment of external auditors and monitor the conduct of audits;
- monitor the Company's compliance with its statutory obligations;
- review and monitor the adequacy of management information and internal control systems; and
- ensure that any shareholder queries relating to such matters are dealt with expeditiously.

Company Auditor

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

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

PricewaterhouseCoopers was appointed as the Auditor to the Company in 1994. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years. The most recent audit rotation commenced on 1 July 2012.

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

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

RECOMMENDATION 4.2 – The audit committee should be structured so that it:

– consists only of non-executive directors;
– consists of a majority of independent directors;
– is chaired by an independent chair, who is not chair of the board; and
– has at least three members.

The Audit and Risk Committee has three members: Richard Morath (Chair), Bruce Coleman and Bruce Phillips.

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

Attendance record at Audit and Risk Committee meetings is provided in the Directors' Report on page 16.

RECOMMENDATION 4.3 – The audit committee should have a formal charter.

The Audit and Risk Committee operates under an approved charter.

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

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

Principle 5: Make timely and balanced disclosure

RECOMMENDATION 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has a Continuous Disclosure Policy.

The Board is committed to:

– the promotion of investor confidence by ensuring that trading in Company shares takes place in an efficient, competitive and informed market;

CORPORATE GOVERNANCE STATEMENT
Continued

- complying with the Company's disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*; and
- ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

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

Principle 6: Respect the rights of shareholders

RECOMMENDATION 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board has adopted a Communications Plan that describes the Board's policy for ensuring shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company.

The Company's primary portals are its website, Annual Report, Annual General Meeting, Half-Yearly Report, Quarterly Investment Report and monthly notices to the ASX.

The Company Secretary oversees and coordinates the distribution of all information by the Company to the ASX, shareholders, the media and the public.

All shareholders have the opportunity to attend the Annual General Meeting and ask questions of the Board.

Principle 7: Recognise and manage risk

RECOMMENDATION 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

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

- there are adequate policies for the oversight and management of material business risks to the Company;
- there are effective systems in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and
- arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The Board, through the Investment Manager and Administrator (Platinum Investment Management Limited) has implemented risk management and compliance frameworks based on ISO 31000:2009 *Risk Management – Principles and Guidelines* and AS 3806-2006 *Compliance Programs*. These frameworks (together with the firm's internal audit function) ensure that:

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including business rules of conduct) is communicated and demonstrated.

RECOMMENDATION 7.2 – **The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

The Investment Manager and Administrator reports periodically to the Audit and Risk Committee on the effectiveness of its risk management and compliance frameworks with respect to services undertaken for the Company.

The Executive Directors have reported to the Board as to the effectiveness of the Company's management of its material business risks.

RECOMMENDATION 7.3 – **The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

In respect of the year ended 30 June 2014, the Managing Director and Finance Director have made the following certifications to the Board:

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

CORPORATE GOVERNANCE STATEMENT
Continued

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION 8.1 – The board should establish a remuneration committee.

Given the size of the Company and the fact that the Executive Directors are not remunerated by the Company, the Board has determined that a remuneration committee is not warranted. The full Board considers the issues that would otherwise be a function of a remuneration committee.

RECOMMENDATION 8.2 – The remuneration committee should be structured so that it:
- consists of a majority of independent directors;
- is chaired by an independent chair; and
- has at least three members.

Not applicable – refer Recommendation 8.1

RECOMMENDATION 8.3 – Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Remuneration Policies
Remuneration for the Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. The Executive Directors review and determine the remuneration of the Non-Executive Directors accordingly. Independent professional advice may be sought.

Further information is provided in the Remuneration Report set out in the Directors' Report on pages 17 to 21.

Remuneration Paid
Remuneration paid to the Non-Executive Directors for the 2013/2014 reporting year is set out in the Directors' Report on page 19.

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 June 2014

	NOTE	2014 $'000	2013 $'000
Investment income			
Dividends		**9,213**	3,735
Interest		**122**	3
Net gains on equities/derivatives		**44,804**	68,425
Net gains on forward currency contracts		**816**	5,712
Net foreign exchange gains/(losses) on overseas bank accounts		**(1,293)**	1,680
Total net investment income		**53,662**	79,555
Expenses			
Management fee	15	**4,883**	3,084
Custody		**313**	198
Non-capitalised capital raising fees and charges	6(f)	**122**	–
Share registry		**275**	173
Directors' fees		**169**	169
Continuous reporting disclosure		**165**	154
Auditor's remuneration			
– Auditing and review (2014: $107,365, 2013: $98,150)		**107**	98
– Taxation services (2014: $51,427, 2013: $44,967)		**51**	45
Transaction costs		**591**	221
Withholding tax on foreign dividends		**620**	388
Other expenses		**181**	177
Total expenses		**7,477**	4,707
Profit before income tax		**46,185**	74,848
Income tax expense	2(a)	**13,300**	16,046
Profit after income tax		**32,885**	58,802
Other comprehensive income		**–**	–
Total comprehensive income for the year	8	**32,885**	58,802
Basic earnings per share (cents per share)	7	**16.22**	35.53
Diluted earnings per share (cents per share)	7	**16.22**	35.53

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

BALANCE SHEET

As at 30 June 2014

	NOTE	2014 $'000	2013 $'000
Assets			
Cash and cash equivalents	9(a)	**21,024**	19,189
Financial assets at fair value through profit or loss	3	**354,827**	232,056
Receivables	4	**600**	598
Total assets		**376,451**	251,843
Liabilities			
Payables	5	**1,502**	1,550
Financial liabilities at fair value through profit or loss	3	**1,331**	835
Current tax payable		**6,200**	660
Net deferred tax liabilities	2(c)	**14,418**	13,856
Total liabilities		**23,451**	16,901
Net assets		**353,000**	234,942
Equity			
Contributed equity	6	**297,242**	196,864
Retained profits	8	**55,758**	38,078
Total equity		**353,000**	234,942

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

STATEMENT OF CHANGES IN EQUITY

For the Year ended 30 June 2014

	NOTE	CONTRIBUTED EQUITY $'000	RETAINED PROFITS $'000	TOTAL $'000
Balance at 30 June 2012		**196,536**	**(17,419)**	**179,117**
Total comprehensive income for the year		–	58,802	58,802
Transactions with equity holders in their capacity as equity owners:				
Contributions of equity, net of transactions costs		697	–	697
Buy-back of shares under the capital management programme		(369)	–	(369)
Dividends paid	13	–	(3,305)	(3,305)
Balance at 30 June 2013		**196,864**	**38,078**	**234,942**
Total comprehensive income for the year		–	32,885	32,885
Transactions with equity holders in their capacity as equity owners:				
Issue of shares in relation to the dividend reinvestment plan and unclaimed dividends	6	2,818	–	2,818
Issue of shares in relation to the Placement and Rights Offer	6	98,340	–	98,340
Transaction costs on the Placement and Rights Offer, net of tax	6(f)	(780)	–	(780)
Dividends paid	13	–	(15,205)	(15,205)
Balance at 30 June 2014		**297,242**	**55,758**	**353,000**

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

STATEMENT OF CASH FLOWS

For the Year ended 30 June 2014

	NOTE	2014 $'000 INFLOWS (OUTFLOWS)	2013 $'000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Payments for purchases of financial assets		**(261,398)**	(96,798)
Proceeds from sale of financial assets		**187,319**	97,922
Dividends received		**5,463**	3,595
Interest received		**121**	3
Management fees paid		**(4,729)**	(2,994)
Other expenses		**(2,569)**	(1,690)
Income tax received/(paid)		**(6,864)**	435
Net cash from operating activities	9(b)	**(82,657)**	473
Cash flows from financing activities			
Dividends paid		**(15,171)**	(3,268)
Purchase of shares under the share buy-back programme	6	**–**	(369)
Proceeds from issue of shares in relation to the dividend reinvestment plan and unclaimed dividends	6	**2,818**	697
Net proceeds from the issue of shares in relation to the Placement and Rights Offer	6	**97,560**	–
Net cash from financing activities		**85,207**	(2,940)
Net increase/(decrease) in cash and cash equivalents		**2,550**	(2,467)
Cash and cash equivalents held at the beginning of the financial year		**19,189**	19,642
Effects of exchange rate changes on cash and cash equivalents		**(715)**	2,014
Cash and cash equivalents held at the end of the financial year	9(a)	**21,024**	19,189

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

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

1. Summary of Significant Accounting Policies

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

The financial report was authorised for issue by the Directors of the Company on 14 August 2014. The Directors have the power to amend the financial report after issue.

(a) Basis of Preparation of the Financial Statements

The financial statements have been prepared in accordance with the requirements of the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

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

The Balance Sheet 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.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Company also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of financial statements requires the use of certain critical accounting estimates and judgements, which are included on the following pages.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

1. Summary of Significant Accounting Policies Continued

(b) Income Tax
The income tax expense for the period is the tax payable on the current period taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. The Company exercises judgement in determining the extent of recognition of deferred tax assets in relation to any applicable realised and/or unrealised tax losses and whether future realised taxable profits are expected to be sufficient to allow recovery of these losses.

(c) Financial Assets and Liabilities at Fair Value through Profit or Loss
The Company has applied AASB 13: *Fair Value Measurement* from 1 July 2013. This is a new standard and is mandatory for reporting periods beginning on or after 1 January 2013. The standard is to be applied prospectively and hence the disclosure requirements do not need to be applied to comparative information for periods before initial application.

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 new standard also increases transparency about fair value measurements, including the valuations techniques and inputs used to measure fair value.

For the Company, the key impact of the new standard is the removal of the requirement to use bid and ask prices for actively-quoted financial assets and liabilities. Instead, the most representative price within the bid-ask spread should be used. 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 a security last changed hands from seller to buyer.

Accordingly, from 1 July 2013, the Company has decided to apply last-sale pricing as the fair value measurement basis for equities and derivatives held. This is consistent with how these investments are priced for monthly ASX reporting of net asset value (NAV).

1. Summary of Significant Accounting Policies Continued

(c) Financial Assets and Liabilities at Fair Value through Profit or Loss Continued

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at reporting date without any deduction for estimated future selling costs. Long securities, long equity swaps and long futures are priced at "last-sale" price, Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the Statement of Comprehensive Income in the period they arise.

Forward currency contracts are categorised as "financial assets/liabilities held for trading" and 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).

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, or any other valuation technique 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 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).

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

1. Summary of Significant Accounting Policies Continued

(e) Foreign Currency Translation
The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* is the Australian Dollar.

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

(f) Investment Income
Interest income
Interest income is recognised in the Statement of Comprehensive Income based on nominated interest rates available on the bank accounts held at various locations throughout the world.

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

(g) 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.

(h) Earnings per Share
Basic and diluted earnings per share are determined by dividing the profit or loss after income tax by the weighted number of ordinary shares outstanding during the financial year.

(i) 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 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 operating activity.

1. Summary of Significant Accounting Policies Continued

(j) Due to/from Brokers for Unsettled Trades

Amounts due to/from brokers represent payables for securities purchased and receivables for securities sold that have been contracted for, but not yet delivered by the reporting date. Trades are recorded on trade date. Proceeds on sale of investments are usually received between two and five days after trade date. Payables on purchase of investments are usually paid between two and five days after trade date.

(k) Receivables

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

(l) Payables

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

(m) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax. See Note 6(f) for further details.

(n) 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.

(o) Offsetting a Financial Asset and a Financial Liability

Financial assets and liabilities are offset and the net amount reported in the Balance Sheets where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(p) Segment Reporting

Under AASB 8: *Operating Segments*, the Company is considered to have a single operating segment. However, the standard requires certain entity-wide disclosures. Refer to Note 17 for further information.

(q) Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 issued by Australian Securities & Investments Commission and consequently, amounts in the financial report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS
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1. Summary of Significant Accounting Policies Continued

(r) Goods and Services Tax (GST)
Revenue, expenses, receivables and payables are recognised net of the amount of any associated GST, unless the GST is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or has been expensed.

(s) New Accounting Standards and Interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period. The one new accounting standard of relevance to the Company is discussed below, as is the assessment of its impact.

(i) Revised AASB 9: *Financial Instruments (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities)*, AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective for annual reporting periods beginning on or after 1 January 2017).

The revised standard defers the operative date of AASB 9: *Financial Instruments* from 1 January 2013 to 1 January 2017. AASB 9 provides guidance on the classification and measurement of financial assets and this standard was assessed as not having a significant impact on the Company.

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.

2. Income Tax

(a) Income Tax Expense

	2014 $'000	2013 $'000
The income tax expense attributable to the profit comprises:		
Current income tax provision	**12,403**	660
Deferred tax liabilities	**861**	12,410
Deferred tax assets	**(298)**	2,976
Transaction costs on the Placement and Rights Offer – amounts recognised in equity (refer 2(b) below)	**334**	–
Income tax expense	**13,300**	16,046
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit. The difference is reconciled as follows:		
Profit before income tax expense	**46,185**	74,848
Prima facie income tax on profit at 30%	**13,856**	22,454
Increase/(reduce) tax payable		
– Allowable credits for foreign tax paid	**(556)**	(294)
– Deferred tax benefit on realised losses from prior year	**–**	(30)
– Deferred tax benefit not recognised on prior year unrealised investment losses	**–**	(6,084)
Income tax expense	**13,300**	16,046

(b) Transaction Costs Recognised Directly in Equity (see Note 6(f))

Aggregate current and future period tax deductions arising in the reporting period not recognised in net profit, but recognised in equity:

	2014 $'000	2013 $'000
Current period tax deductions	**67**	–
Future period tax deductions	**267**	–
	334	–

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

2. Income Tax Continued

(c) Net Deferred Tax Assets/(Liabilities)

In line with our existing accounting policy, the Company has exercised judgement in determining the extent of recognition of deferred tax balances. Due to the solid performance over the period, the Company has accumulated net unrealised gains on investments of $48,359,000 (2013: $41,139,000). The tax impact on these unrealised gains formed a major part of the overall net deferred tax liability of $14,418,000 (2013: $13,856,000).

The net deferred tax assets/liabilities figure in the Balance Sheet is comprised of:

(i) Deferred tax assets

The balance comprises temporary differences attributable to:

	2014 $'000	2013 $'000
Audit fees	**22**	19
Taxation services	**9**	9
Shareholder communication and reporting	**45**	39
Capital raising and legal costs	**298**	9
Deferred tax assets	**374**	76

(ii) Deferred tax liabilities

The balance comprises temporary differences attributable to:

Dividends receivable	**130**	61
Differences in cost base for tax compared to accounting	**241**	1,308
Unrealised gains on financial assets	**14,421**	12,559
Financial asset payments	**–**	4
Deferred tax liabilities	**14,792**	13,932
Net deferred tax assets/(liabilities)	**(14,418)**	(13,856)

	2014 $'000	2013 $'000

3. Financial Assets and Liabilities at Fair Value through Profit or Loss

	2014 $'000	2013 $'000
Financial assets		
Equity securities	**354,439**	230,337
Derivatives	**197**	360
Foreign currency contracts	**191**	1,359
Financial assets	**354,827**	232,056
Financial liabilities		
Derivatives	**626**	280
Foreign currency contracts	**705**	555
Financial liabilities	**1,331**	835
Financial assets less liabilities	**353,496**	231,221

For 30 June 2014, all equity securities and derivatives are valued using the last-sale price. For 30 June 2013, all equity securities and derivatives were valued using bid-ask pricing.

Refer to Note 1(c) for the accounting policy concerning fair value measurement.

4. Receivables

	2014 $'000	2013 $'000
Proceeds on sale of financial assets	–	232
Goods and Services Tax	**62**	38
Dividends receivable	**430**	205
Indian Capital Gains Tax receivable	**27**	35
Prepayments	**81**	88
	600	598

Proceeds on sale of financial assets are usually received between two and five days after trade date. Dividends are usually received within approximately 30 days of the ex-dividend date. Information relating to the ageing of receivables is shown in Note 12.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

	2014 $'000	2013 $'000
5. Payables		
Payables on purchase of financial assets	**645**	923
Trade creditors (unsecured)	**771**	575
Unclaimed dividends payable to shareholders	**86**	52
	1,502	1,550

Payables on purchase of financial assets are usually paid between two and five days after trade date. Trade creditors are payable between seven and 30 days after being incurred. These current payables are non-interest bearing. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 12.

		2014 QUANTITY	2014 $'000	2013 QUANTITY	2013 $'000
6. Contributed Equity					
Opening balance		**165,860,278**	**196,864**	165,655,317	196,536
Buy-back of shares	8-Aug-12 to 6-Sep-12 (a)	**–**	**–**	(385,748)	(369)
Dividend reinvestment plan	11-Mar-13 (b)	**–**	**–**	590,709	697
Dividend reinvestment plan	9-Sep-13 (b)	**1,082,010**	**1,623**	–	–
Reinvestment of unclaimed dividends	16-Sep-13 (c)	**18,940**	**29**	–	–
Placement of shares	18-Nov-13 (d)	**25,044,183**	**38,818**	–	–
Shares issued under the Rights Offer	19-Dec-13 (e)	**38,401,081**	**59,522**	–	–
Less transaction costs on the Placement and Rights Offer, net of tax	(f)	**–**	**(780)**	–	–
Dividend reinvestment plan	10-Mar-14 (b)	**633,782**	**1,109**	–	–
Reinvestment of unclaimed dividends	13-Mar-14 (c)	**31,664**	**57**	–	–
Closing balance		**231,071,938**	**297,242**	165,860,278	196,864

6. Contributed Equity Continued

(a) The Company implemented an on-market share buy-back programme between 2 April 2012 and 28 March 2013. Between 2 April 2012 and 28 March 2013, 506,675 shares were bought-back and this represented 0.31% of issued share capital.

(b) Shares are issued under the Dividend Reinvestment Plan at a 2.5% (2013: 5%) discount to the market price.

(c) For reinvestment of unclaimed dividends, additional shares are issued at the last-sale price of the Company's shares on the first business day following the expiration six months from the date of payment of the relevant dividend.

(d) On 11 November 2013, the Company announced a successful Placement of 25,044,183 fully-paid ordinary shares to sophisticated and professional investors at $1.55 per share and raised gross proceeds of $38,818,483.

(e) On 11 November 2013, the Company announced a 1:5 pro-rata non-renounceable Rights Offer. On 19 December 2013, 38,401,081 shares were issued at $1.55 per share and raised gross proceeds of $59,521,676. In total, 63,445,264 new shares were issued under Placement and Rights Offer and this increased issued share capital by 38%.

(f) Transaction costs on the Placement and Rights Offer.

The Company incurred fees and charges associated with the two-part capital raising announced on 11 November 2013. A breakdown of these fees and charges that have been deducted against equity are as follows:

	2014 $'000	2013 $'000
Management and placement fees associated with the capital raising*	**912**	–
Registry charges	**170**	–
Legal fees	**32**	–
	1,114	–
Less current and future period tax deductions	**(334)**	–
	780	–

* Management and Placement fees associated with the Placement and Rights Offer Shortfall Facility were paid to the Sole Lead Manager, CBA Equities Limited (CBA Equities) and the Co-Managers, Bell Potter Securities Limited (Bell Potter) and Morgans Limited (Morgans) for allocating 25,044,183 shares under the Placement. A management and shortfall facility fee was paid to CBA Equities for allocating 7,985,849 shares under the Rights Offer Shortfall Facility.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

6. Contributed Equity Continued

Total gross proceeds raised pursuant to the Placement and Rights Offer were $98,340,000. In accordance with AASB 132, expenses that directly relate to the issue of equity have been deducted against equity. The nature and quantum of these costs are shown on page 49 and total $1,114,000 (or $780,000 after factoring in the current and future period tax deductions).

The net cash proceeds raised (after expenses deducted against equity) of $97,560,000 appears in the Statement of Cash Flows. Certain other expenses such as ASX Listing Fees and non-recoverable GST (total of $122,000) have been expensed in the Income Statement, in accordance with AASB 132.

Ordinary Shares

At 30 June 2014, ordinary shares on issue totalled 231,071,938 shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

7. Earnings per Share

	2014	2013
Basic earnings per share – cents per share	**16.22**	35.53
Diluted earnings per share – cents per share	**16.22**	35.53
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**202,804,111**	165,503,691
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**32,885**	58,802

There have been no conversions to, calls of, or subscriptions for Ordinary Shares during the current or previous period other than those issued under the Dividend Reinvestment Plan, reinvestment of unclaimed dividends, shares bought-back and shares issued pursuant to the capital-raising, therefore diluted earnings per share equals basic earnings per share.

8. Retained Profits

	NOTE	2014 $'000	2013 $'000
Retained profits/(loss) at the beginning of the financial year		**38,078**	(17,419)
Profit after income tax		**32,885**	58,802
Dividends paid	13	**(15,205)**	(3,305)
Retained profits at the end of the financial year		**55,758**	38,078

9. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

	2014 $'000	2013 $'000
Cash at bank*	**88**	62
Cash on deposit**	**20,936**	19,127
	21,024	19,189

* Includes $81,000 (2013: $48,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $9,730,000 (2013: $7,750,000) 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 at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions.

All accounts are at call and majority bear floating interest rates in the range of 0.00% to 2.65% (2013: 0.00% to 3.4%).

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

9. Notes to the Statement of Cash Flows Continued

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

	2014 $'000	2013 $'000
Profit after income tax	**32,885**	58,802
Decrease/(increase) in investment securities and forward currency contracts	**(122,275)**	(73,606)
(Increase)/decrease in cash due to exchange rate movements	**715**	(2,014)
Decrease/(increase) in settlements receivable	**232**	54
Decrease/(increase) in dividends receivable	**(225)**	(139)
Decrease/(increase) in Goods and Services Tax receivable	**(24)**	(9)
Decrease/(increase) in Indian Capital Gains Tax receivable	**8**	(28)
Decrease/(increase) in prepayments	**7**	(88)
Decrease/(increase) in income tax receivable	**–**	435
(Decrease)/increase in accrued expenses	**196**	120
(Decrease)/increase in settlements payable	**(278)**	900
(Decrease)/increase in income tax payable	**5,540**	660
Decrease/(increase) in deferred tax assets	**(298)**	2,976
(Decrease)/increase in deferred tax liabilities	**860**	12,410
Net cash from operating activities	**(82,657)**	473

(c) Non-Cash Financing Activities

During the year, 1,766,396 (2013: 590,709) shares were issued under the Dividend Reinvestment Plan (DRP) and reinvestment of unclaimed dividends. Dividends settled in shares rather than cash during the year totalled $2,817,980 (2013: $697,037).

10. Statement of Net Asset Value

	2014 $'000	2013 $'000
Reconciling Net Asset Value in accordance with Australian Accounting Standards to that reported to the ASX*		
Post-tax Net Asset Value per Balance Sheet	**353,000**	234,942
Add:		
Difference between bid price under Australian Accounting Standards and last sale price and/or realisation costs*	**(888)**	229
Less:		
Deferred income tax asset/(liability) on difference under Accounting Standards and last sale price and/or realisation costs	**266**	(69)
Net deferred income tax asset in respect of investments and accruals	**22**	27
Post-tax Net Asset Value	**352,400**	235,129
Net Asset Value – dollars per share (post-tax)	**1.5251**	1.4176

* At 30 June 2014, financial assets and liabilities were valued at "last-sale" price for both ASX and financial accounts reporting. The difference at 30 June 2014 is mainly caused by the ASX requirement that realisation costs need to be deducted for ASX reporting of NAV.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

11. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2014 $'000
Japan		
Alpine Electronics	100,200	**1,497**
Daiichi Sankyo	194,907	**3,854**
DeNA	73,657	**1,056**
Denso	36,032	**1,823**
Hitachi	192,602	**1,495**
Ibiden	186,021	**3,970**
Mitsubishi	172,847	**3,810**
Mitsubishi UFJ Financial Group	467,000	**3,034**
Nagano Bank	2,033	**4**
Nippon Electric Glass	134,395	**830**
Nippon Telegraph and Telephone	101,297	**6,696**
Nitto Denko	11,607	**577**
Ono Pharmaceutical	21,803	**2,035**
Sumitomo Electric Industries	48,411	**722**
Sumitomo Metal Mining	109,733	**1,889**
Toyota Industries	156,027	**8,538**
Ushio	160,982	**2,198**
Total Japan		**44,028**

11. Investment Portfolio Continued

	QUANTITY	2014 $'000
Other Asia		
China		
51Job – American Depository Receipt	23,000	**1,608**
Anton Oilfield Services	3,616,883	**2,612**
Autohome – American Depository Receipt	51,000	**1,862**
Baidu – American Depository Receipt	18,176	**3,600**
China Life Insurance – H shares	1,251,114	**3,474**
China Mobile	387,001	**3,981**
China Pacific – A shares – long equity swap	472,548	**(16)**
China Pacific Insurance	603,276	**2,257**
Chow Tai Fook	1,149,000	**1,861**
EcoGreen Fine Chemicals	13,107,682	**3,873**
E-House China – American Depository Receipt	105,287	**966**
Jiangsu Yanghe Brewery – long equity swap	36,000	**(25)**
Luzhou Laojiao – long equity swap	325,498	**(77)**
PICC Property & Casualty – H shares	2,462,387	**3,955**
Qunar Cayman Islands – American Depository Receipt	44,816	**1,356**
Sina – American Depository Receipt	79,865	**4,214**
Sohu.com – American Depository Receipt	34,425	**2,105**
Tencent	310,095	**5,014**
Trina Solar – American Depository Receipt	153,335	**2,086**
Youku Tudou – American Depository Receipt	151,976	**3,844**
		48,550
Hong Kong		
Computime	8,232,300	**721**
Shangri-La Asia	1,545,000	**2,566**
		3,287

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

	QUANTITY	2014 $'000
11. Investment Portfolio Continued		
Other Asia Continued		
India		
Adani Enterprises	93,112	**749**
Adani Ports and Special Economic Zone	468,854	**2,020**
Hindalco Industries	1,306,932	**3,795**
ICICI Bank	128,204	**3,215**
IDFC	759,297	**1,814**
Info Edge India	2,635	**31**
Jaiprakash	2,447,586	**3,341**
Jaypee Infratech	728,655	**434**
National Aluminium	742,746	**775**
PTC India	901,128	**1,506**
Unitech	1,706,841	**1,019**
United Spirits	23,700	**1,004**
		19,703
Korea		
CJ Korea Express	7,453	**941**
KB Financial	125,461	**4,626**
Korea Investment	32,423	**1,365**
Naver	3,711	**3,246**
Samsung Electronics	6,297	**8,721**
Samsung SDI	11,000	**1,867**
		20,766
Malaysia		
Genting	1,056,112	**3,496**
Genting Warrants Dec18	118,561	**113**
		3,609

	QUANTITY	2014 $'000
11. Investment Portfolio Continued		
Other Asia Continued		
Singapore		
Mandarin Oriental International	447,000	**903**
Petra Foods	125,667	**417**
		1,320
Thailand		
Bangkok Bank Foreign	114,491	**724**
Bangkok Bank – Non – Voting Depository Receipt	492,204	**3,105**
		3,829
Vietnam		
Vietnam Dairy Product – long equity swap	498,144	**(68)**
Vietnam Enterprise	537,600	**1,556**
		1,488
Total Other Asia		**102,552**
Australia		
Alumina	249,624	**337**
Newcrest Mining	199,000	**2,094**
Vantage Goldfields	1,000,000	**28**
Total Australia		**2,459**
Europe – Euro		
Finland		
Outokumpu	260,332	**2,776**
		2,776
France		
Casino Guichard Perrachon	60,350	**8,483**
Kering	17,670	**4,108**
Pernod Ricard	32,162	**4,094**
Sanofi	56,800	**6,396**
		23,081

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

	QUANTITY	2014 $'000
11. Investment Portfolio Continued		
Europe – Euro Continued		
Germany		
Bayer	8,847	**1,325**
Henkel KGAA – Vorzug	25,910	**3,175**
Hornbach Baumarkt	69,109	**3,237**
Hornbach Holding	8,721	**949**
Qiagen – American Depository Receipt	52,469	**1,360**
Qiagen	115,158	**2,959**
		13,005
Italy		
Intesa Sanpaolo	2,167,000	**7,096**
Mediobanca	247,000	**2,610**
		9,706
Total Europe – Euro		**48,568**
Europe – Other		
Denmark		
Genmab	16,648	**753**
		753
Norway		
Schibsted	23,218	**1,282**
		1,282
Sweden		
Atlas Copco – short equity swap	(24,155)	**7**
Ericsson	705,876	**9,043**
Kinnevik Investment	12,853	**581**
SKFB – short equity swap	(19,916)	**10**
		9,641

11. Investment Portfolio Continued

Europe – Other Continued

	QUANTITY	2014 $'000
Switzerland		
Meyer Burger Technology	106,750	**1,767**
Novartis	59,483	**5,710**
Roche	5,800	**1,834**
		9,311
Russia		
MMC Norilsk Nickel – American Depository Receipt	119,552	**2,511**
QIWI – American Depository Receipt	32,390	**1,385**
Burbank – American Depository Receipt	264,398	**2,839**
United Co Rusal	3,517,000	**1,689**
Yandex	81,900	**3,094**
		11,518
United Kingdom		
Amec	57,000	**1,256**
AstraZeneca	95,941	**7,552**
Carnival	157,147	**6,272**
Gemfields	1,940,780	**1,659**
Weir Group – short equity swap	(48,874)	**(22)**
		16,717
Total Europe – Other		**49,222**

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

	QUANTITY	2014 $'000
11. Investment Portfolio Continued		
North America		
Canada		
Ballard Power Systems	517,500	**2,260**
Banro	363,871	**184**
Canadian Oil Sands	179,719	**4,318**
Canfor Pulp Products	53,628	**671**
Great Basin Gold	192,636	**–**
Lucara Diamond	2,376,500	**6,116**
Suncor Energy	54,000	**2,441**
		15,990
United States		
Alcoa	568,458	**8,973**
Baker Hughes	96,114	**7,586**
Bank of America	210,816	**3,435**
Barrick Gold	180,347	**3,499**
Capstone Turbine	1,217,797	**1,950**
Ciena	167,671	**3,850**
Cummins – short equity swap	(1,849)	**3**
eBay	123,200	**6,538**
Foster Wheeler	221,420	**7,997**
Gilead Sciences – short equity swap	(18,000)	**(33)**
Google	5,733	**3,553**
Google Inc C Class	5,733	**3,496**
Infinera	83,035	**810**
Intel	138,450	**4,535**
i Shares Russell September 2014 – put option	1,295	**120**
Jacobs Engineering	35,854	**2,025**
KBR	96,997	**2,453**
Linkedin	21,200	**3,854**
Marvell Technology	81,314	**1,235**

11. Investment Portfolio Continued

	QUANTITY	2014 $'000
North America Continued		
United States Continued		
Mercer International	233,089	**2,595**
MGIC Investment	162,128	**1,588**
Nasdaq August 2014 – put option	2,096	**24**
Nasdaq September 2014 – put option	1,613	**32**
Newmont Mining	22,000	**593**
Retail Basket – short equity swap	(5,997)	**(28)**
Retail Basket – short equity swap	(15,362)	**(48)**
Russell 2000 Mini Index Sep 2014 – index future	(108)	**(247)**
Salesforce.com – short equity swap	(26,439)	**(16)**
Smurfit Stone	225,000	**–**
S&P Retail – exchange traded funds	(77,000)	**(46)**
Stillwater Mining	163,097	**3,034**
Trulia	18,203	**914**
Verastem	310,543	**2,983**
Zillow	14,333	**2,172**
		79,429
Total North America		**95,419**
South America		
Brazil		
Gafisa	642,859	**1,037**
PDG Realty	1,399,085	**978**
		2,015
Peru		
Bayer Peru – Trabajo	60,241	**–**
Peru Holding de Turismo – Trabajo	1,667,523	**38**
		38
Total South America		**2,053**

NOTES TO THE FINANCIAL STATEMENTS
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	QUANTITY	2014 $'000
11. Investment Portfolio Continued		
Africa		
Zambia		
Zambeef Products	237,637	**87**
		87
Zimbabwe		
Dawn Properties	1,806,672	**19**
Delta	1,846,922	**2,526**
Econet Wireless	3,133,910	**2,226**
Innscor Africa	1,545,692	**1,294**
Masimba	6,879,563	**125**
Padenga	1,297,989	**110**
Pearl Properties	7,421,412	**204**
Riozim	48,989	**10**
		6,514
Kenya		
British American Investments	2,729,300	**657**
Safaricom	8,000,000	**1,205**
		1,862
Nigeria		
Union Bank of Nigeria	19,198,940	**1,246**
		1,246
Total Africa		**9,709**

	QUANTITY	2014 $'000

11. Investment Portfolio Continued

Liquids		
Outstanding settlements		**(215)**
Forward currency contracts		**(514)**
Cash on deposit		**20,936**
Total Liquids		**20,207**
Total Investment Portfolio reconciles to Note 12(c)		**374,217**
Accounted for in payables (payables on purchase of investments)		**645**
Accounted for in receivables (proceeds on sale of investments)		**–**
Accounted for in receivables (dividends receivable)		**(430)**
Accounted for in Financial Assets and Liabilities ($353,496,000 as per Note 3) and Cash on Deposit ($20,936,000 as per Note 9(a))		**374,432**

The total number of securities transactions entered into during the reporting period, together with total brokerage paid during the reporting period:

Number of transactions – 1,953

Total brokerage paid – $1,206,423
($590,584 on purchases and $615,839 on sales)

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management

(a) Financial Risk Management Objectives, Policies and Processes

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

Platinum Asset Management'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 world;

(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.

Derivatives (which include equity swaps, futures and options) are utilised for risk management purposes and to take opportunities to increase returns.

The underlying value of derivatives held by the Company may not exceed 100% of the portfolio value. The underlying value of long stocks and derivative contracts may not exceed 150% of the portfolio value. Where options are employed, the underlying value will be delta-adjusted exposure. Compliance with these limits is reviewed by the Board and the Audit and Risk Committee on a monthly basis.

The Company does not generally enter or trade derivatives for speculative purposes.

12. Financial Risk Management Continued

(b) Investments at Fair Value and Derivative Exposure

2014	**PHYSICAL $'000**	**LONG DERIVATIVE CONTRACTS $'000**	**SHORT DERIVATIVE CONTRACTS $'000**	**NET EXPOSURE $'000**
Japan	**44,028**	**–**	**–**	**44,028**
Other Asia	**102,737**	**5,681**	**–**	**108,418**
Australia	**2,459**	**–**	**–**	**2,459**
Europe – Euro	**48,568**	**–**	**–**	**48,568**
Europe – Other	**49,227**	**–**	**(3,600)**	**45,627**
North America	**95,658**	**–**	**(33,267)**	**62,391**
South America	**2,053**	**–**	**–**	**2,053**
Africa	**9,709**	**–**	**–**	**9,709**
	354,439	**5,681**	**(36,867)**	**323,253**

2013	PHYSICAL $'000	LONG DERIVATIVE CONTRACTS $'000	SHORT DERIVATIVE CONTRACTS $'000	NET EXPOSURE $'000
Japan	38,074	–	–	38,074
Other Asia	44,595	4,135	–	48,730
Australia	669	–	–	669
Europe – Euro	39,960	–	–	39,960
Europe – Other	22,390	–	(5,054)	17,336
North America	73,426	–	(28,067)	45,359
South America	1,157	–	–	1,157
Africa	10,066	–	–	10,066
	230,337	4,135	(33,121)	201,351

The "Physical" column represents the location of the Company's investments.
The Investments shown above in the "Physical" column (totalling $354,439,000 for 2014) reconcile to the fair value of equity securities disclosed in Note 3.

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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(b) Investments at Fair Value and Derivative Exposure Continued

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 Japan, but there was a 2% short position in Nikkei 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 Japanese market.

(c) Market Risk

(i) 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 internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency. Platinum Asset Management selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. Platinum Asset Management may position the Company's Portfolio in what it believes will be a stronger currency(ies). The Company continues to hold no Australian Dollar and little Japanese Yen, favouring the US Dollar and various European and Asian currencies.

At 30 June 2014, the Company's principal currency exposures were: US Dollar and Hong Kong Dollar 56%, Euro and other European currencies 26%, Asian currencies excluding Japanese Yen 10% and Japanese Yen 1%. The Company's exposure to the Australian Dollar was negative 0.3%.

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

Where there have been major currency movements or where currencies are perceived to be over or undervalued, Platinum Asset Management 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).

12. Financial Risk Management Continued

(c) Market Risk Continued

(i) 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 11.

2014	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	**49,446**	**–**	**(44,332)**	**5,114**
Other Asia	**84,340**	**5,933**	**(18,854)**	**71,419**
Australia	**2,345**	**–**	**(3,561)**	**(1,216)**
Europe – Euro	**47,568**	**14,390**	**–**	**61,958**
Europe – Other	**31,845**	**3,518**	**–**	**35,363**
North America	**153,488**	**50,242**	**(7,336)**	**196,394**
South America	**2,078**	**–**	**–**	**2,078**
Africa	**3,107**	**–**	**–**	**3,107**
	374,217	**74,083**	**(74,083)**	**374,217**

2013	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	42,715	–	(41,454)	1,261
Other Asia	32,679	7,223	–	39,902
Australia	2,215	–	(8,004)	(5,789)
Europe – Euro	42,093	15,189	–	57,282
Europe – Other	19,229	3,553	–	22,782
North America	107,278	47,812	(24,319)	130,771
South America	1,157	–	–	1,157
Africa	2,496	–	–	2,496
	249,862	73,777	(73,777)	249,862

Forward foreign currency contracts and options on forward currency contracts are adjusted against the "Physical" column to arrive at a "Net Exposure" for each currency grouping.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(c) Market Risk Continued

(i) Foreign Exchange Risk Continued

The Company generally utilises short dated (90 day maturity) currency agreements with high-credit rated counterparties. The existing forward currency contract positions' maturity dates range from 15 days to 75 days.

Foreign exchange risk sensitivity analysis

The table below 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 Euro (shown in the +10% column) and weakened by 10% against the United States Dollar and Euro (shown in the -10% column). These two currencies are the material foreign currencies to which the Company is exposed.

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.

	2014 +10% $'000	**2014 –10% $'000**	2013 +10% $'000	2013 –10% $'000
United States Dollar	**(16,521)**	**20,193**	(11,837)	14,467
Euro	**(5,632)**	**6,884**	(5,104)	6,238

The sensitivity analysis shows that the Company is materially affected by exchange rate movements (other things being equal), given the global nature of the investments held.

(ii) 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 overwhelming 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. Therefore, there is minimal liability exposure to interest rate risk.

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

The impact of interest rate movements on our investments is not capable of precise estimation.

12. Financial Risk Management Continued

(c) Market Risk Continued

(ii) Interest Rate Risk Continued

At 30 June 2014 and 2013, 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.

(iii) Price Risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general.

Platinum Asset Management'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 Asset Management seeks a broad range of 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 a general index. Investment Managers such as Platinum Asset Management seek to outperform the market as represented by an appropriate index.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2014, the Company maintained short positions against company specific stocks and market indices. The use of index derivatives allows the Company to invest in specific companies, whilst providing some degree of protection against more general adverse market price movements.

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The two markets that the Company has the biggest investment exposure to are Japan and the United States of America. The effect on profit due to a possible change in market factors, as represented by a +/–10% movement in these two markets with all other variables held constant, is illustrated in the table below:

	2014 +10% $'000	**2014 –10% $'000**	2013 +10% $'000	2013 –10% $'000
Japanese Nikkei 225	**4,403**	**(4,403)**	3,808	(3,808)
S&P Index	**9,608**	**(9,608)**	5,998	(5,998)

The above two indices have been used as proxies for the Company's physical exposure in those markets.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(c) Market Risk Continued

(iii) Price Risk Continued

Price risk sensitivity analysis Continued

If all other share market indices that the Company invests moved by +/–10%, then the Company's profit would increase/(decrease) by A$18,725,000 (2013: A$10,328,000). A sensitivity of 10% has been selected as this is considered reasonably possible.

The above analysis is based on the assumption the Company's investments move in correlation with the indices. The indices provided above are a reference point only. Actual movements in stock prices may vary significantly to movements in the index.

(d) 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 equivalent, futures, equity swaps, and forward currency 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

	2014 $'000	2013 $'000
A+	**11,206**	11,588
A	**3,509**	4,006
A–	**6,467**	6,541
AA–	**–**	100
Total	**21,182**	22,235

Source: Platinum and Standard & Poor's

Platinum Asset Management 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.

12. Financial Risk Management Continued

(d) Credit Risk Continued

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.

Ageing analysis

The Company's ageing analysis of receivables (disclosed in Note 4 and the Balance Sheet) at 30 June 2014 is as follows:

	2014 $'000	2013 $'000
0 – 30 days	**292**	351
31 – 60 days	**205**	115
61 – 90 days	**16**	31
90+ days	**87**	101
	600	598

Amounts receivable after 60 days are past due, but no amounts are impaired.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(e) Liquidity Risk Continued

Financial and Non-Financial Liabilities

All financial and non-financial liabilities (excluding net deferred tax liabilities) are payable within six months.

Non-Financial Liabilities

At 30 June 2014 the contractual maturity for non-financial amounts payable (disclosed in Note 5 and the Balance Sheet) is as follows:

	2014 $'000	2013 $'000
Payable within three months		
Unsettled trades	**645**	923
Trade creditors and dividends payable	**857**	627
	1,502	1,550
Payable between three to six months		
Income tax payable	**6,200**	660
	7,702	2,210

Financial Liabilities

As at 30 June 2014, contractual maturity of financial liabilities (disclosed in Note 3) is as follows:

	2014 $'000	2013 $'000
Payable within three months		
Derivative contractual outflows	**626**	280
Foreign currency contracts	**705**	555
	1,331	835

At 30 June 2014, there are no other contractual amounts payable after three months.

The Company has sufficient funds to meet these liabilities as the value of total net assets realisable in one year or less is $375,093,000 (2013: $251,808,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

12. Financial Risk Management Continued

(e) Liquidity Risk Continued

Financial Liabilities Continued

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.

Platinum Asset Management 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.

(f) Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

The Company measures and recognises the following financial assets and liabilities at fair value, pursuant to AASB 13, on a recurring basis:

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

(ii) Short equity swaps and short futures; and

(iii) Forward currency contracts.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(f) Fair Value Hierarchy Continued

The following table analyses within the fair value hierarchy model, the Company's assets and liabilities measured at fair value at 30 June 2014 and 30 June 2013. The Company has no assets or liabilities that are classified as level 3.

2014	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Financial assets			
Equity securities	**352,883**	**1,556**	**354,439**
Derivatives	**197**	**–**	**197**
Foreign currency contracts	**–**	**191**	**191**
Financial assets	**353,080**	**1,747**	**354,827**
Financial liabilities			
Derivatives	**481**	**145**	**626**
Foreign currency contracts	**–**	**705**	**705**
Financial liabilities	**481**	**850**	**1,331**
Total financial assets less liabilities measured at fair value	**352,599**	**897**	**353,496**

2013	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Financial assets			
Equity securities	229,072	1,265	230,337
Derivatives	340	20	360
Foreign currency contracts	–	1,359	1,359
Financial assets	229,412	2,644	232,056
Financial liabilities			
Derivatives	189	91	280
Foreign currency contracts	–	555	555
Financial liabilities	189	646	835
Total financial assets less liabilities measured at fair value	229,223	1,998	231,221

The above totals reconcile to the total of financial assets and liabilities presented in Note 3 and Balance Sheet.

12. Financial Risk Management Continued

(f) Fair Value Hierarchy Continued

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 during the year.

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

12. Financial Risk Management Continued

(g) Offsetting and Master Netting Agreements Continued

The gross and net positions of financial asset and liabilities that have been offset in the Balance Sheet are disclosed in the first three columns of the following tables:

	AMOUNTS OFFSET IN THE BALANCE SHEET			RELATED AMOUNTS NOT SET-OFF IN THE BALANCE SHEET		
2014	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE BALANCE SHEET $'000	NET AMOUNTS IN THE BALANCE SHEET $'000	FINANCIAL INSTRUMENTS[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
Derivatives	**197**	**–**	**197**	**(197)**	**–**	**–**
Forward currency contracts	**223**	**(32)**	**191**	**(191)**	**–**	**–**
2013						
Derivatives	360	–	360	(360)	–	–
Forward currency contracts	1,617	(258)	1,359	(1,359)	–	–
2014						
Financial liabilities						
Derivatives	**626**	**–**	**626**	**(197)**	**(429)**	**–**
Forward currency contracts	**737**	**(32)**	**705**	**(191)**	**(514)**	**–**
2013						
Derivatives	280	–	280	(280)	–	–
Forward currency contracts	813	(258)	555	(555)	–	–

(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 Balance Sheet, as they are not currently enforceable.

12. Financial Risk Management Continued

(h) Capital Risk Management

The Company considers its capital to comprise ordinary share capital and accumulated retained profits.

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the world, so to continue to provide returns to shareholders. Under the capital management programme approved by shareholders, the Company may adjust its capital structure via rights issues and share buy-backs. The Company may announce a new share buy-back programme or commence a rights issue at a future point in time, if the premium or discount widens beyond the range of -10% (discount) or +15% (premium) respectively. The two-part capital raising involving a Placement and Rights Offer conducted in the 2014 financial year was not part of the capital management programme. The capital raising allowed the Company to take advantage of a number of interesting global investment opportunities.

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

	2014 CPS	**2014 $'000**	2013 CPS	2013 $'000
13. Dividends (Fully-Franked)				
Paid – 11 March 2013	–	–	2.00	3,305
Paid – 9 September 2013	**5.00**	**8,293**	–	–
Paid – 10 March 2014	**3.00**	**6,912**	–	–
		15,205		3,305

Dividends not recognised at year-end

In addition to the above dividends paid, since year-end, the Directors have declared the payment of a dividend of 5 cents per fully paid ordinary share, fully-franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 8 September 2014, but not recognised as a liability at year-end, is $11,554,000.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

	2014 $'000	2013 $'000
14. Franking Account		
Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30%	**5,856**	7,048
Franking credits/(debits) arising from tax paid/(refunded) during the year	**6,204**	(435)
Franking (debits) arising from dividends paid during the year	**(6,516)**	(1,417)
Franking credits arising from tax payable at 30 June	**6,200**	660
	11,744	5,856
Impact on franking account of the final dividend declared but not recognised as a liability at the end of the financial year	**(4,952)**	(3,554)
	6,792	2,302

The franking account balance would allow the Company to frank additional dividend payments up to an amount of $15,848,000.

15. Investment Manager

The Investment Manager, Platinum Asset Management, receives a monthly management fee for investment services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.5% per annum of the Portfolio Value (which includes cash and deposits).

A performance fee is payable at 10% of the amount by which the Portfolio's annual performance exceeds the return achieved by the MSCI plus 5% (MSCI is the Morgan Stanley Capital International All Country World Net Index in A$). Where the Portfolio's annual performance is less than the MSCI, 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 2014, the annual pre-tax performance of the portfolio was 17.73% and the corresponding MSCI was 19.24%. This represents an underperformance of 1.51% against the MSCI. Accordingly, a performance fee has not been accrued.

Platinum Asset Management is to be paid a lump sum termination fee of 1.5%, calculated on the value of the Portfolio on the first day of the month in which termination is effective. The fee is not payable if the termination results from the default or insolvency of Platinum Asset Management. Additionally, a performance fee is payable for the period from the last calculation of the performance fee (as described above) to the date of termination.

15. Investment Manager Continued

Fees paid and payable to Platinum Asset Management for the year is shown in the table below:

	2014 $'000	2013 $'000
Management fee	**4,883**	3,084

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

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

- (i) invest and manage the Portfolio in accordance with the Agreement;
- (ii) 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;
- (iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with; and
- (v) appoint Mr Neilson as Managing Director of the Company.

(b) Each party is to provide three months notice to terminate the Agreement. The Company may immediately terminate the Agreement where Platinum Asset Management:

- (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 a material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by the Investment Manager under the Agreement; or
- (v) sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking of the Investment Manager 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.

The Agreement was entered into to (a) codify changes made to the ASX Listing Rules and (b) codify the range of services provided by Platinum Asset Management to the Company.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

16. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities existed at 30 June 2014 and 30 June 2013. The Company has no commitments for uncalled share capital on investments.

17. Segment Information

The Company is organised into one main operating segment with the one key function of the investment of funds internationally. AASB 8 requires the disclosure of revenue by geographical location and investment type, which is outlined below:

(a) Revenue by Geographical Location

	2014 $'000	2013 $'000
Japan	**3,041**	13,737
Other Asia	**14,642**	17,913
Australia	**3,019**	(853)
Europe – Euro	**17,783**	13,531
Europe – Other	**596**	4,051
North America	**14,322**	21,786
South America	**147**	289
South Africa	**(704)**	3,389
Unallocated revenue – Net gains on forward currency contracts	**816**	5,712
Total	**53,662**	79,555

(b) Revenue by Investment Type

	2014 $'000	2013 $'000
Equity securities	**63,752**	72,250
Derivatives	**(9,735)**	(90)
Foreign currency contracts	**816**	5,712
Bank accounts	**(1,171)**	1,683
Total	**53,662**	79,555

18. Events Occurring After Balance Sheet Date

Since the end of year, the Directors have declared a fully-franked final dividend of 5 cents per share payable on 8 September 2014.

No other matters have occurred since balance date that would impact the operations or results of the Company or the state of affairs of the Company in future financial years.

19. Related Party Dealings

Management Fees

Disclosures relating to management fees paid and payable to the related party, Platinum Asset Management, are set out in Note 15.

Administration Fees

Under the Administrative Services Agreement, Platinum Asset Management provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services.

The services provided extends 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 Asset Management received a payment of $1 from the Company.

Key Management Personnel – Executive Directors

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are related parties of the Company, on the basis that:

(1) they are employees of the Investment Manager, Platinum Asset Management, and the Executive Directors receive a portion of the management fee received by the Investment Manager, in their capacity as Directors for the Investment Manager.

(2) the Executive Directors are members of the Board of the Company and consequently carry out various responsibilities which are outlined in the Corporate Governance Statement on pages 23 and 24. The Executive Directors waive their right to any fee or remuneration and as a consequence the Company does not pay the Executive Directors any remuneration.

Key Management Personnel – Non-Executive Directors

Details of remuneration paid to the Non-Executive Directors are outlined in the Remuneration Report on page 19.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2014

20. The Company
Platinum Capital 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

In the Directors' opinion,

(a) the financial statements and notes set out on pages 35 to 82 are in accordance with the *Corporations Act 2001* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(ii) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Platinum Capital Limited will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Bruce Phillips
Chairman

Kerr Neilson
Director

Sydney, 14 August 2014

INDEPENDENT AUDITOR'S REPORT
to the members of Platinum Capital Limited

Report on the Financial Report
We have audited the accompanying financial report of Platinum Capital Limited (the Company), which comprises the Balance Sheet as at 30 June 2014, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

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

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

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

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

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 Capital 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 2014 and of its performance for the year ended on that date; and

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Platinum Capital Limited

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 21 of the Directors' Report for the year ended 30 June 2014. 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.

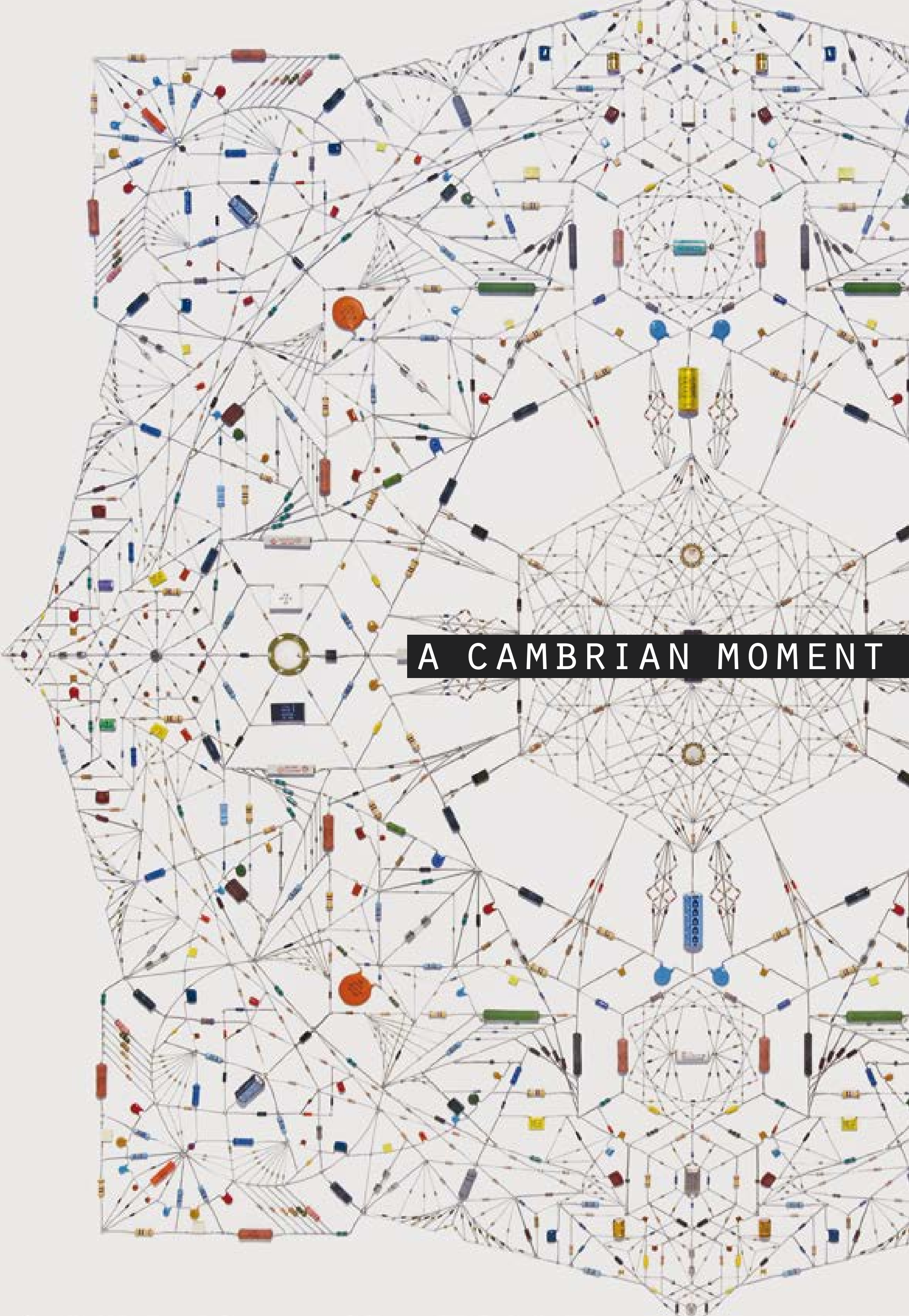
Auditor's opinion

In our opinion, the Remuneration Report of Platinum Capital Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney, 14 August 2014



A CAMBRIAN MOMENT

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(only pages: IV-V, IX, XXII-XXIII, XXIV-XXV, XXVIII-XXIX, XXX)

A CAMBRIAN MOMENT

Cheap and ubiquitous building blocks
for digital products and services
have caused an explosion in startups.
Ludwig Siegele weighs its significance

PREFACE

It seems the world is awash with digital entrepreneurs. An extraordinary boom in digital start-ups is about to reshape today's business landscape increasingly dominated by the technology giants like Google, Facebook, Twitter and Instagram.

We have written before about the creative disruption that occurs in a digital economy as well as the flurry of entrepreneurial activity that typically follows as apps are superseded within moments of being launched.

Today's digital startups are following in the tech giant's footsteps by disrupting an even greater number of industries from travel and banking to logistics and entertainment. Growing wildly, they are infiltrating every part of a hyper-connected economy. Rising investor confidence in digital businesses have caused vibrant start-up hubs to flourish in the world's major cities.

These digital startups – that produce popular messaging and other iPhone apps – are able to compete for an important reason. They're built to do one very simple thing better than anyone else. Born out of complex software, they create new products that meet specific consumer needs by improving existing ones.

And this is where they get interesting. Startups can quickly and easily stitch together a brand new app from freely-available digital code and software at practically no cost. This has kick started a global entrepreneurial boom.

So when *The Economist* published an article comparing the explosion in digital startups to the Cambrian Explosion – a period in evolutionary history that began about 540 million years ago – we were intrigued.

The author of the following article, 'A Cambrian Moment' says that's when the basic building blocks of life had just been perfected, allowing more complex organisms to be assembled more rapidly.

"Similarly, the basic building blocks for digital services and products have become so evolved, cheap and ubiquitous that they can be easily rearranged and replicated."

Every point in the article strikes a chord since we closely follow how each stride in new technology disrupts the status quo.

What's particularly fascinating is that with these new 'life' forms or 'building blocks', new digital products can be launched quickly and easily with almost no capital. Anyone with a new idea can do it.

At the heart of the article is a prediction that proliferating digital platforms will be the cornerstone of tomorrow's economy. The author refers to 'the platformisation of everything'. In the start-up world that means new firms will combine and recombine open-source software, cloud computing and social networks to produce a new digital experience. Permutations are endless.

The author argues that if these 'building blocks' are available to everybody then once platform thinking takes hold – both in terms of providing platform services and consuming them – we'll see even more rapid changes across the whole economy. He concludes that companies must either turn themselves into open platforms or become agile 'ecosystems' to support startups.

Smart companies know that iGoogle is already creating platforms that allow startups to offer banking services. Some smaller banks, including Bancorp, hold funds for online banking apps like Simple. Big payment processors, such as First Data and TSYS, are opening up their networks.

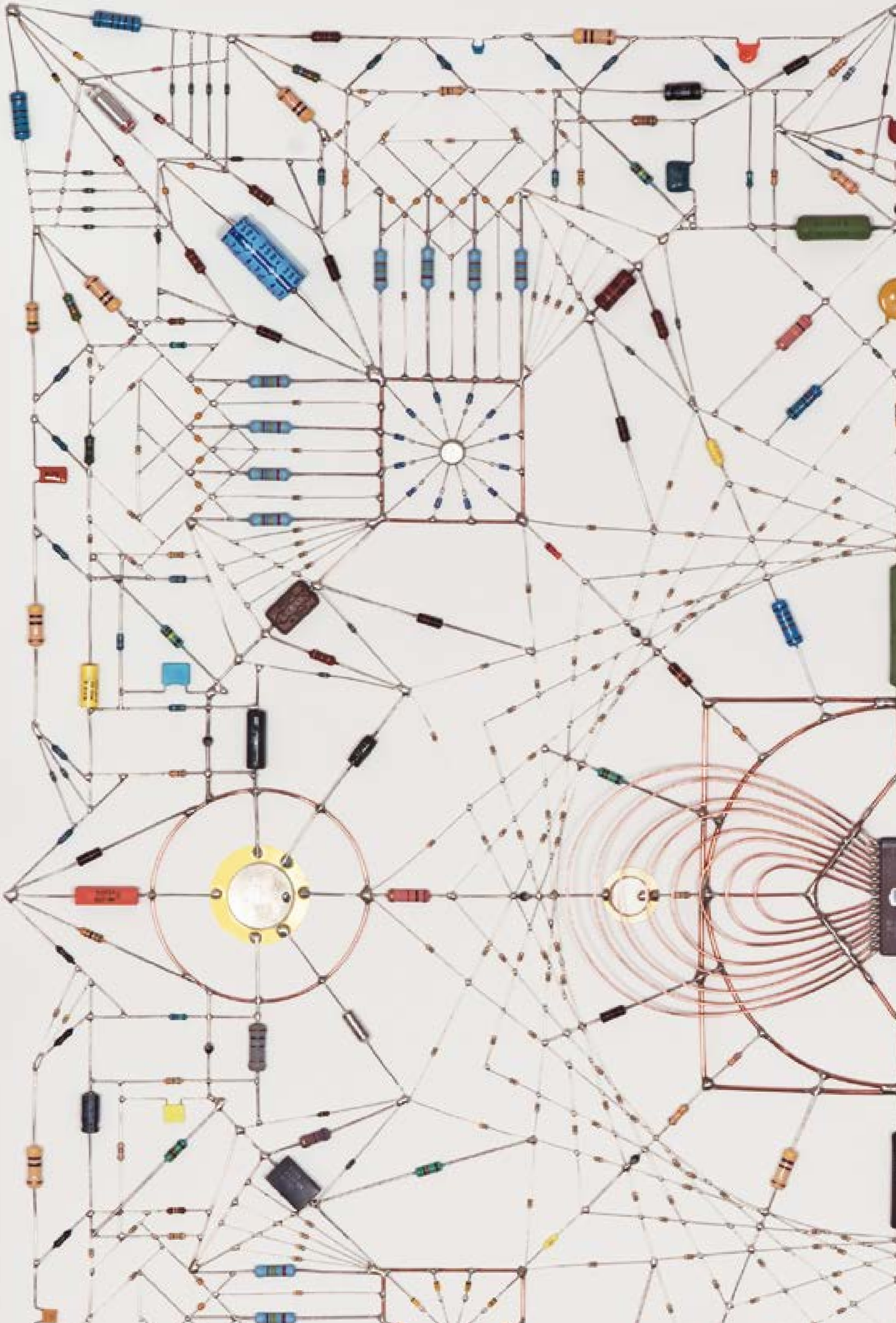
The impact of platformisation is monumental which makes this article both timely and compelling. We are rapidly approaching a time when customers will reach across platforms that are both digital and physical. This is referred to as 'the internet of things', which is when everything in everyday life, from household appliances to cars, is internet-controlled.

Whenever this kind of fundamental change occurs, the global business scene splinters into two: those companies that have a hard time adapting and those that power ahead. This will doubtless present many interesting investment opportunities.

KERR NEILSON

Managing Director

August 2014



A CAMBRIAN MOMENT

About 540 million years ago something amazing happened on planet Earth: life forms began to multiply, leading to what is known as the "Cambrian explosion".

Until then sponges and other simple creatures had the planet largely to themselves, but within a few million years the animal kingdom became much more varied.

Something similar is now happening in the virtual realm: **an entrepreneurial explosion.**

Digital startups are bubbling up in an astonishing variety of services and products, penetrating every nook and cranny of the economy.

They are reshaping entire industries and even changing the very notion of the firm.

"Software is eating the world," says Marc Andreessen, a Silicon Valley venture capitalist.

This digital feeding frenzy has given rise to a global movement.

Most big cities, from Berlin and London to Singapore and Amman, now have a sizeable startup colony ("ecosystem"). Between them they are home to hundreds of startup schools ("accelerators") and thousands of co-working spaces where caffeinated folk in their 20s and 30s toil hunched over their laptops.

All these ecosystems are highly interconnected, which explains why internet entrepreneurs are a global crowd. Like medieval journeymen, they travel from city to city, laptop not hammer in hand. A few of them spend a semester with "Unreasonable at Sea", an accelerator on a boat which cruises the world while its passengers code.

"ANYONE WHO WRITES CODE CAN BECOME AN ENTREPRENEUR – ANYWHERE IN THE WORLD," SAYS SIMON LEVENE, A VENTURE CAPITALIST IN LONDON.

Here we go again, you may think: yet another dotcom bubble that is bound to pop. Indeed, the number of pure software startups may have peaked already. And many new offerings are simply iterations on existing ones.

Nobody really needs yet another photo-sharing app, just as nobody needed another site for pet paraphernalia in the first internet boom in the late 1990s.

The danger is that once again too much money is being pumped into startups, warns Mr Andreessen, who as co-founder of Netscape saw the bubble from close by: "When things popped last time it took ten years to reset the psychology." And even without another internet bust, more than 90% of startups will crash and burn.

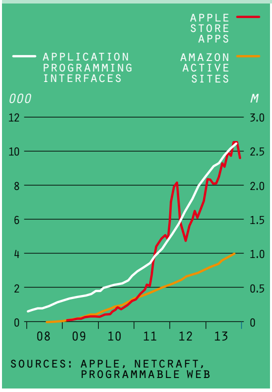
But this time is also different, in an important way. Today's entrepreneurial boom is based on more solid foundations than the 1990s internet bubble, which makes it more likely to continue for the foreseeable future.

One explanation for the Cambrian explosion of 540 million years ago is that at that time the basic building blocks of life had just been perfected, allowing more complex organisms to be assembled more rapidly.

Similarly, the basic building blocks for digital services and products – the "technologies of startup production", in the words of Josh Lerner of Harvard Business School – have become so evolved, cheap and ubiquitous that they can be easily combined and recombined.

Some of these building blocks are snippets of code that can be copied free from the internet, along with easy-to-learn programming frameworks. Others are services for finding developers, sharing code and testing usability. Yet others are "application programming interfaces" (APIS), digital plugs that are multiplying rapidly.

AWESOME WEB SERVICES



They allow one service to use another, for instance voice calls (Twilio), maps (Google) and payments (PayPal). The most important are "platforms" – services that can host startups' offerings (Amazon's cloud computing), distribute them (Apple's App Store) and market them (Facebook, Twitter). And then there is the internet, the mother of all platforms, which is now fast, universal and wireless.

STARTUPS ARE BEST THOUGHT OF AS EXPERIMENTS ON TOP OF SUCH PLATFORMS, TESTING WHAT CAN BE AUTOMATED IN BUSINESS AND OTHER WALKS OF LIFE. SOME WILL WORK OUT, MANY WILL NOT.

Hal Varian, Google's chief economist, calls this "combinatorial innovation". In a way, these startups are doing what humans have always done: apply known techniques to new problems. The late Claude Lévi-Strauss, a French anthropologist, described the process as *bricolage* (tinkering).

Technology has fuelled the entrepreneurial explosion in other ways, too. Many consumers have got used to trying innovative services from firms with strange names.

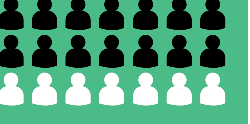
And thanks to the web, information about how to do a startup has become more accessible and more uniform. Global standards are emerging for all things startup, from programming tools to term sheets for investments, dress code and vocabulary, making it easy for entrepreneurs and developers to move around the world.

INVENT YOURSELF A JOB

Economic and social shifts have provided added momentum for startups. The prolonged economic crisis that began in 2008 has caused many millennials – people born since the early 1980s – to abandon hope of finding a conventional job, so it makes sense for them to strike out on their own or join a startup.

A lot of millennials are not particularly keen on getting a "real" job anyway. According to a recent survey of 12,000 people aged between 18 and 30 in 27 countries, more than two-thirds see opportunities in becoming an entrepreneur. That signals a cultural shift.

12,000 PEOPLE AGED 18 TO 30 IN 27 COUNTRIES



TWO-THIRDS SEE OPPORTUNITIES IN BECOMING AN ENTREPRENEUR.

"Young people see how entrepreneurship is doing great things in other places and want to give it a try," notes Jonathan Ortmans of the Ewing Marion Kauffman Foundation, which organises an annual Global Entrepreneurship Week.

Lastly, startups are a big part of a new movement back to the city. Young people increasingly turn away from suburbia and move to hip urban districts, which become breeding grounds for new firms. Even Silicon Valley's centre of gravity is no longer along Highway 101 but in San Francisco south of Market Street.

Describing what sorts of businesses these startups engage in would at best provide a snapshot of a fast-moving target. In essence, software (which is at the heart of these startups) is eating away at the structures established in the analogue age.

LinkedIn, a social network, for instance, has fundamentally changed the recruitment business. Airbnb, a website on which private owners offer rooms and flats for short-term rent, is disrupting the hotel industry. And Uber, a service that connects would-be passengers with drivers, is doing the same for the taxi business.

Technological change has created a set of new institutions which governments around the world are increasingly supporting.

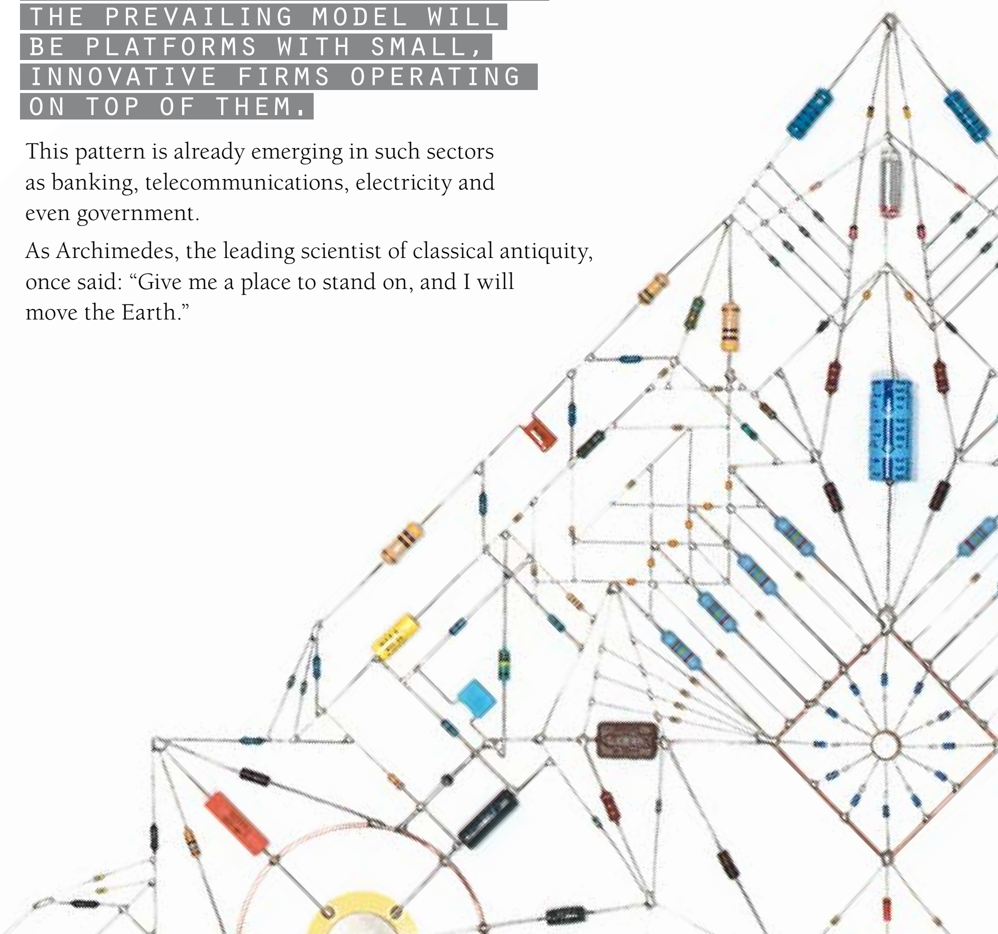
Startups run on hype; things are always "awesome" and people "super-excited". But this world has its dark side as well. Failure can be devastating.

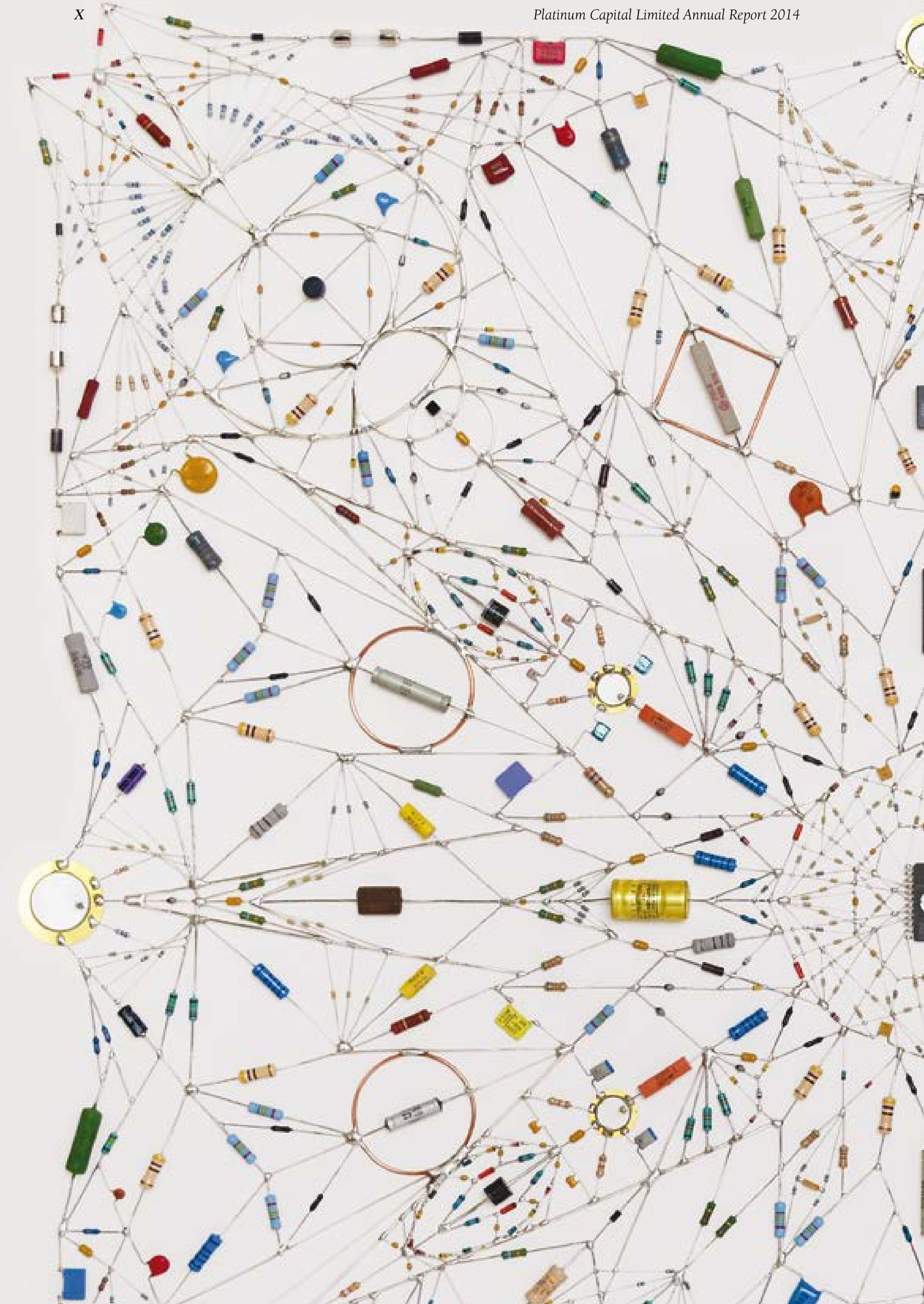
Being an entrepreneur often means having no private life, getting little sleep and living on noodles, which may be one reason why few women are interested. More ominously, startups may destroy more jobs than they create, at least in the shorter term.

THE WORLD OF STARTUPS TODAY OFFERS A PREVIEW OF HOW LARGE SWATHES OF THE ECONOMY WILL BE ORGANISED TOMORROW. THE PREVAILING MODEL WILL BE PLATFORMS WITH SMALL, INNOVATIVE FIRMS OPERATING ON TOP OF THEM.

This pattern is already emerging in such sectors as banking, telecommunications, electricity and even government.

As Archimedes, the leading scientist of classical antiquity, once said: "Give me a place to stand on, and I will move the Earth."





CREATING A BUSINESS

TESTING, TESTING

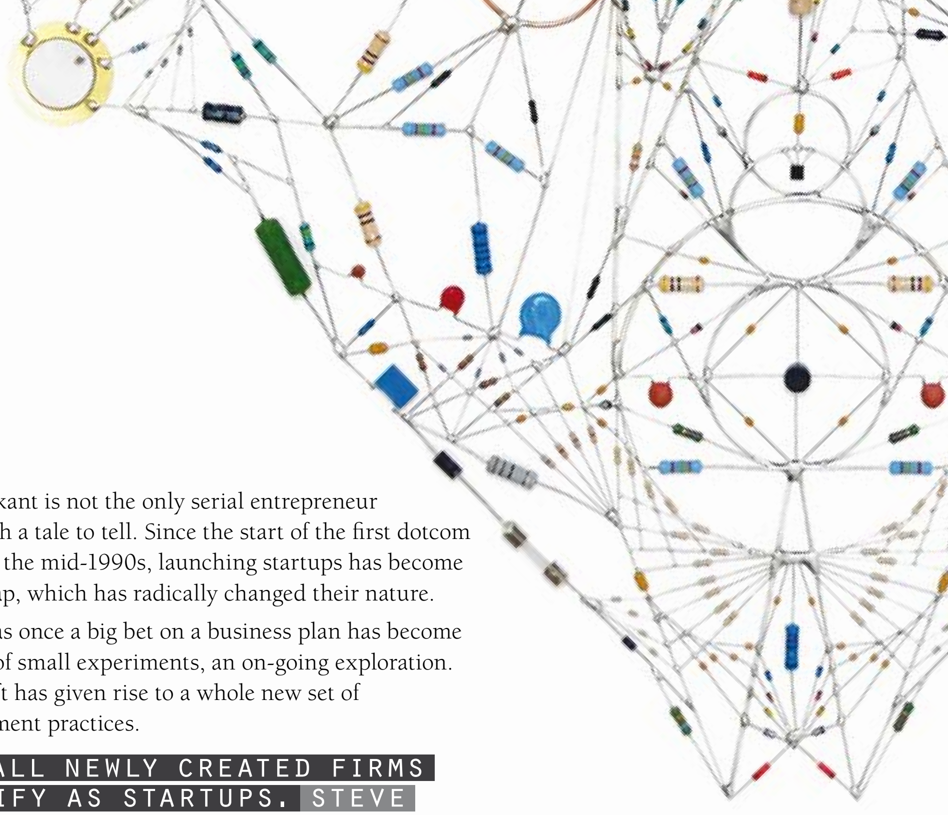
Launching a startup has become fairly easy, but what follows is back-breaking work

"We even had to host the servers in our own office." Naval Ravikant laughs as he describes how in 1999 he and some friends founded his first startup, Epinions, a website for consumer reviews.

They had to raise $8 million in venture capital, buy computers from Sun Microsystems, license database software from Oracle and hire eight programmers. It took nearly six months to get a first version of the site up and running.

By comparison, setting up Mr Ravikant's latest venture, AngelList, a social network for startups and investors was a doddle. The cost was in the tens of thousands of dollars, which he put up himself.

Hosting and computing power was available, for a small fee, via the internet. Most of the software needed was free. The biggest expense was the salary of the two developers, but thanks to nifty programming tools they were able to do the job in a few weeks.



Mr Ravikant is not the only serial entrepreneur with such a tale to tell. Since the start of the first dotcom boom in the mid-1990s, launching startups has become dirt cheap, which has radically changed their nature.

What was once a big bet on a business plan has become a series of small experiments, an on-going exploration. This shift has given rise to a whole new set of management practices.

NOT ALL NEWLY CREATED FIRMS QUALIFY AS STARTUPS. STEVE BLANK, A NOTED EXPERT IN THE FIELD, DEFINES THEM AS COMPANIES LOOKING FOR A BUSINESS MODEL THAT ALLOWS FOR FAST, PROFITABLE GROWTH. THE AIM IS TO BECOME A "MICRO-MULTINATIONAL", A FIRM THAT IS GLOBAL WITHOUT BEING LARGE.

Many of them are simply small businesses that use digital technology. A growing number are "social enterprises" – firms with a social mission.

In the past, startups almost universally began with an idea for a new product. Now the business usually begins with a "team" – often two people with complementary skills who probably know each other well.

These "founders" (a term now used in preference to "entrepreneurs") often work through several ideas before hitting on the right one.

Such flexibility would have been unthinkable during the first internet boom. Startups had to build from scratch most of the things they needed, particularly the computing infrastructure.

TODAY NEARLY ALL OF THE INGREDIENTS NEEDED TO PRODUCE A NEW WEBSITE OR SMARTPHONE APP ARE AVAILABLE AS OPEN-SOURCE SOFTWARE OR CHEAP PAY-AS-YOU-GO SERVICES.

A quick prototype can be put together in a matter of days, which explains the astonishing success of organisations such as Startup Weekend.

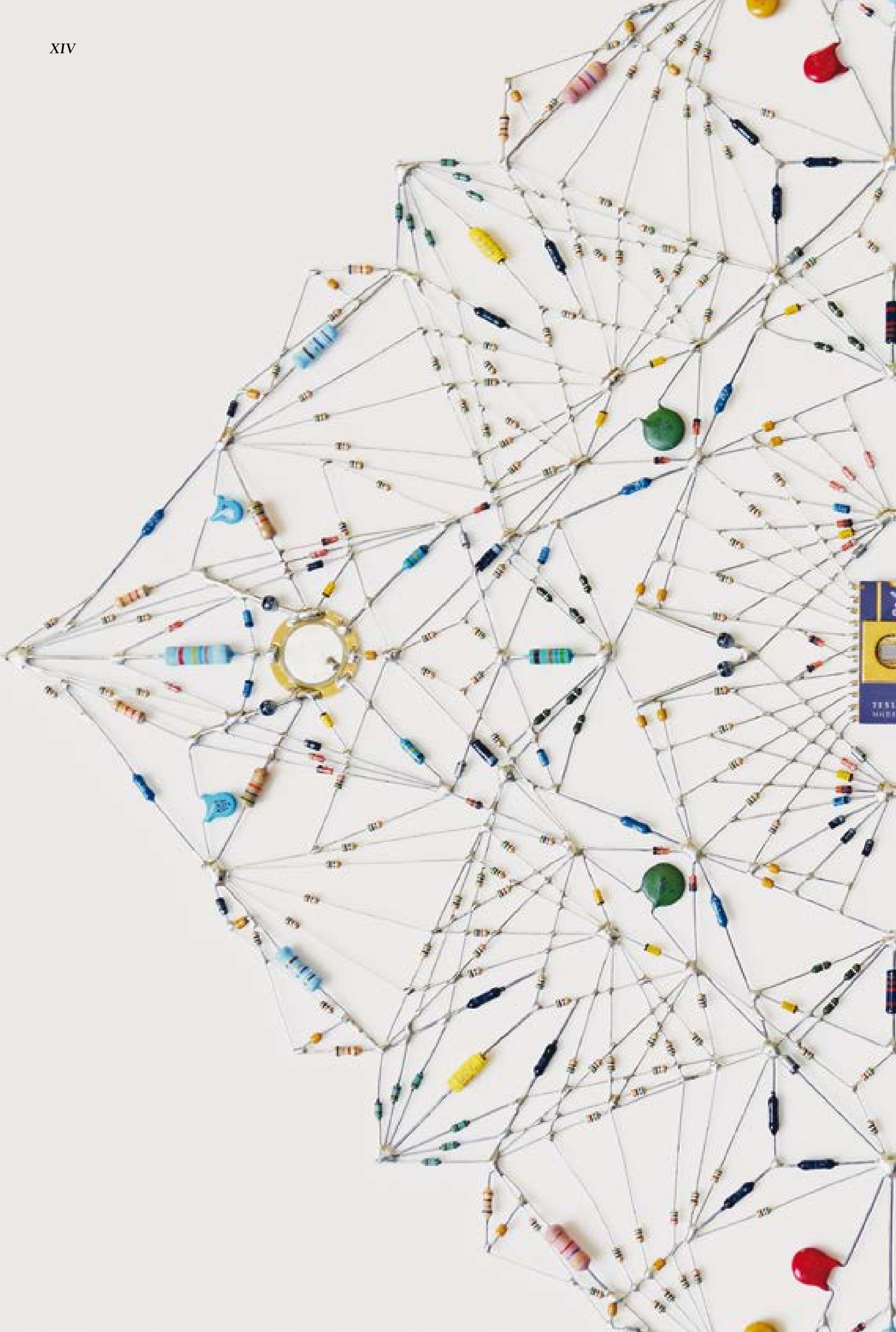
Since it was created in 2007, its volunteers have organised more than 1,000 weekend hackathons with over 100,000 participants in nearly 500 cities, including such far-flung places as Ulaanbaatar in Mongolia and Perm in Russia.

Perhaps the biggest change is that computing power and digital storage are now delivered online. At Amazon Web Services, the biggest "cloud" provider, the basic package is free and includes 750 hours of server time. And if a new website or smart-phone app proves hugely successful, new virtual servers can be added almost instantly for a small fee.

A whole industry of services to help startups tweak their offerings has sprung up, too. Optimizely, itself a startup, automates something that has become a big part of what developers do today: A/B testing.

In its simplest form, this means that some visitors to a webpage will see a basic "A" version, others a slightly tweaked "B" version. If a new red "Buy now" button produces more clicks than the old blue one, the site's code can be changed there and then. Google is said to run so many such tests at the same time that few of its users see an "A" version.

To see how people actually use their products, startups can sign up with services such as usertesting.com. This pays people to try out new websites or smartphone apps and takes videos while they do so. Firms can tell the service exactly which user profile they want (specifying gender, age, income and so on), and get results within the hour.



ACCELERATORS

GETTING UP TO SPEED

The biggest professional-training system you have never heard of.

It feels like some prayer meeting. Two middle-aged men start by telling the audience how important it is to pitch in.

A booming voice announces the acts, greeted by loud cheers; then some enthusiastic young people jump onto the stage and start talking about their missions.

One wants to help women sell their unused clothes and shoes; another to teach children to manage money more responsibly; a third to bring the reinsurance market online at last.

TechStars, a chain of accelerators (in essence, schools for startups), is known for putting on a good show. But such graduation ceremonies can now be watched almost anywhere: everyday is "demo day" somewhere around the world.

Accelerators' champions already see them as the new business schools. "I'd rather get $100,000 and be a case study than pay $100,000 to read case studies," says Dave McClure, the founder of 500 Startups, an accelerator based in Silicon Valley.

The exact number is unknown, but f6s.com, a website that provides services to accelerators and similar startup programmes, lists more than 2,000 worldwide.

Some have already become big brands, such as Y Combinator, the first accelerator, founded in 2005. Others have set up international networks, such as TechStars and Startupbootcamp.

Yet others are sponsored by governments (Startup Chile, Startup Wise Guys in Estonia and Oasis500 in Jordan) or big companies. Telefónica, a telecoms giant, operates a chain of 14 "academies" worldwide. Microsoft, too, is building a chain.

PREDICTABLY, MANY OBSERVERS TALK ABOUT AN "ACCELERATOR BUBBLE". YET IF IT IS A BUBBLE, IT IS UNLIKELY EVER TO DEFLATE COMPLETELY. ACCELERATORS ARE TOO USEFUL FOR THAT.

Not only do they bring startups up to speed, provide access to a network of contacts and give them a stamp of approval. They also perform a crucial function in the startup supply chain: picking the teams and ideas that are most likely to succeed and serving them up to investors.

Business schools emerged in the second half of the 19th century to meet an educational need not provided for by other institutions. Accelerators are trying to fill a similar gap today. But they also call to mind another sort of educational institution that became popular during the dotcom boom: incubators.

The idea was to give startups a home and offer them technical, legal and other services. Yet many of the fledglings did not fly. The incubators often felt too cosy, and their operators had no interest in pushing out their tenants as long as they were paying rent.

The mixed success of incubators was one reason why Paul Graham, a former software entrepreneur and angel investor, chose a different set-up for Y Combinator, which went on to nurture such successes as Dropbox and Airbnb.

Founders who take part in its programme have to move to Silicon Valley for the duration, but Y Combinator itself is not much more than an assembly hall in the heart of the region where participants meet for weekly dinners, listen to guest speakers and talk to Mr Graham and his partners.

It started as a summer programme and the roots still show, with courses running for three months, about the length of an academic summer break. Teams all join at the same time, in batches. Applicants are rigorously screened and the best invited for interview. For the latest batch 74 (including six not-for-profits) were selected from a field of more than 2,600. Those lucky few get paid between $14,000 and $20,000 to attend. In return they have to hand over about 7% of their firm's equity.

Y Combinator is still the most successful startup school. Its boss maintains a steely control reminiscent of Apple's late Steve Jobs, but others adopt a more open approach.

TechStars, the model for most accelerators, has even created a Global Accelerator Network for startup schools. This is not an entirely disinterested move: it aims to create a platform for like-minded organisations in which its programmes will have Ivy League status.

Founded in Boulder, Colorado, by David Cohen and Brad Feld, two angel investors, TechStars is also highly selective and takes an equity stake in the companies it accepts, and it, too, admits new startups in batches for three months at a time. But it feels more like a real school than does Y Combinator: founders toil together in classes of a dozen people, and they have teachers-cum-mentors who serve as sounding boards. The company has replicated its model in five American cities and in London.

The chain's classroom in Britain's capital is a floor in Warner Yard, a co-working space in the district of Clerkenwell.

TEAMS SHARE TABLES, BUT BANTER IS KEPT TO A MINIMUM. "GET SHIT DONE," READS ONE SCRIBBLE ON A BLACKBOARD. "WASTING TWO OUT OF SEVEN DAYS IS NOT AN OPTION," PROCLAIMS ANOTHER.

Dominating the room is a big digital clock counting down to demo day when they all have to present their projects.

THREE MONTHS IN PURGATORY

"That clock is basically your life," says Laurence Aderemi, chief executive of Moni, a mobile service designed to make it easy to send money abroad. He initially sat right in front of the clock, but moved his seat after it appeared in a nightmare.

Twelve-hour working days are at the lower end of the scale. If necessary, founders dispense with sleep altogether and work non-stop. Some sever all contact with friends and family during the programme.

Most accelerators do not have much in the way of a fixed curriculum. Managers of startup schools regularly meet up with the founders and organise a few classes on such matters as taxes and payroll. They also make extensive use of mentors, mostly experienced entrepreneurs, investors or other experts who have seen it all before.

For mentoring to work, founders and mentors have to be well matched, so TechStars programmes start with a mentoring marathon: over ten days founders meet more than 100 people for half an hour each.

SeedCamp, another accelerator based in London, regularly brings together two dozen invited startups with nearly 400 experts over the course of week.

This can be both useful and confusing. At a recent SeedCamp session the four mentors quizzing the founder of Legal-Tender, a marketplace for legal services, soon home in on the central problem of such a business: reaching a point where demand and supply feed on each other. But they offer different kinds of remedies: one suggests starting off with recruiting legal firms, another specialising in certain kinds of legal work, and a third working with a professional organisation.

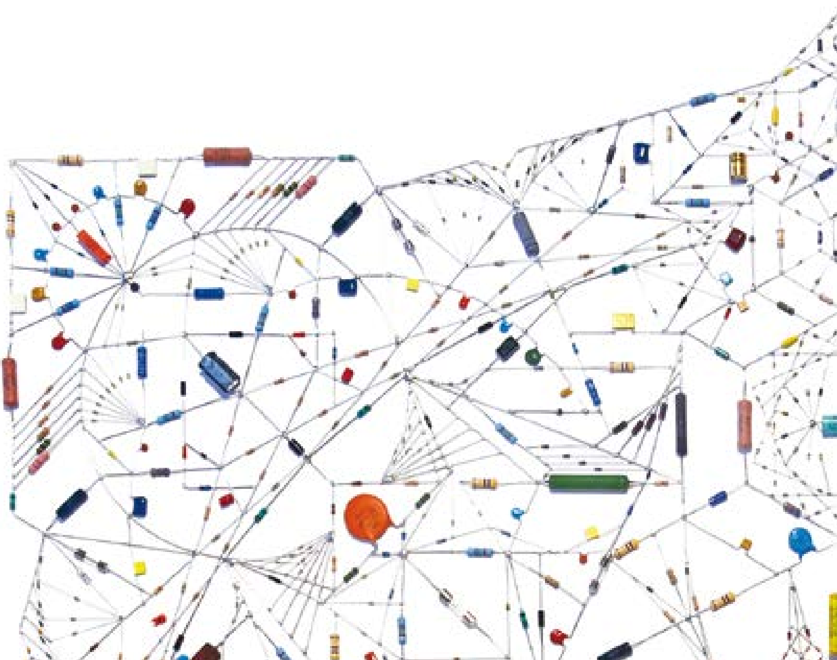
Mentors usually do not get paid, but they seem to enjoy the experience. "It's rejuvenating my brain," says Kevin Dykes, a serial entrepreneur who is a regular at Startupbootcamp in Berlin, "but I also want to give back to the community."

Some mentors become paid advisers or even investors. At TechStars they are often the first people to put money into a startup after demo day.

Cynics say that mentoring is just a form of due diligence and a way of creating a "proprietary deal flow" – meaning privileged access to good deals. Some accelerators themselves have funds for additional investments in alumni's businesses, or work with venture-capital funds that put money in all the startups in a batch, sight unseen.

THEY SEE IT AS A BET ON AN INDEX FUND, HOPING THAT AMONG THE STARTUPS WILL BE A FEW BIG WINNERS – AN APPROACH TO VENTURE INVESTING KNOWN AS "SPRAY AND PRAY".

But demo day remains all-important for attracting investors. Startups are told to think about their pitches from the day they enter the programme. The last few weeks are often dominated by rehearsals. The presentations themselves are usually only a few minutes long, but they have to do far more than provide information about what the firm does, the pedigree of the founders and the size of the market.



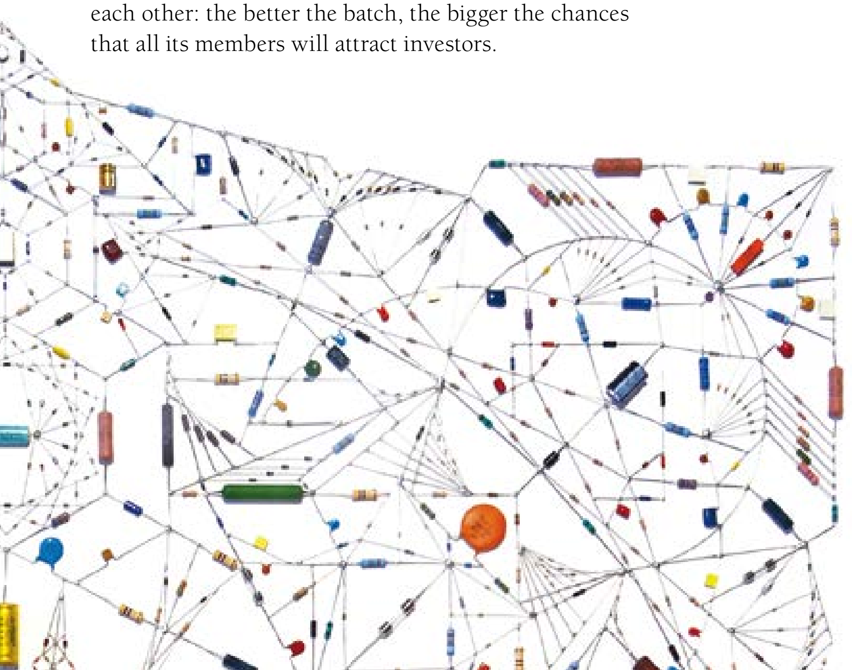
To persuade an investor to ask for a follow-on meeting, they must be masterpieces of storytelling about the startup's chances of success.

"You have to pull them into your reality-distortion field," says Paul Murphy, the founder OP3Nvoice, another TechStars London startup that sells technology to search audio and video recordings.

THE COMPETITION IS NOT SO MUCH THE OTHER FIRMS PRESENTING BUT THE INVESTOR'S SMARTPHONE, WHERE ANOTHER MESSAGE IS ALWAYS DEMANDING ATTENTION.

When you add it all up, accelerators are quite different from business schools. "One helps you with that startup, the other provides you with a framework for 20 years," says Jon Eckhardt, who heads the entrepreneurship centre at the University of Wisconsin-Madison and has co-founded an accelerator.

Still, he thinks, for most founders, startup schools are probably worthwhile. Much of the learning takes place among the founders themselves, says Susan Cohen of the University of Richmond, Virginia, who has written a dissertation on the subject. Teams are keen to help each other: the better the batch, the bigger the chances that all its members will attract investors.



But founders may lose a slice of equity and time, which is at a premium in the fast-moving tech world. “You know what I’m tired of? Rich guys launching ‘startup accelerators’ so they can rip off new startup founders,” said Ryan Carson, a British entrepreneur, on his blog.

Others worry that startup schools drain scarce talent from fast-growing companies and accelerate too many ideas that struggle to find funding.

More fundamentally, it remains to be seen whether accelerators are good business. For many, making money is not the goal: big companies often launch them to tap into the startup community or as a marketing exercise; governments subsidise them to foster their entrepreneurial ecosystem; and many angels see their investment in them as a way of giving back. But most accelerators that take equity in their startups hope that at least some will return a respectable multiple of the investment.

It will take time to find out whether those hopes are fulfilled. Most accelerators were established after 2010, and most startups that have gone through them are still works in progress. Research about accelerators is in its infancy and there are no generally agreed ways to evaluate their performance.

182 ACCELERATORS NURTURED MORE THAN 3,000 START-UPS

RAISED $3.2B IN FUNDING

GENERATED $1.8B IN “EXITS”

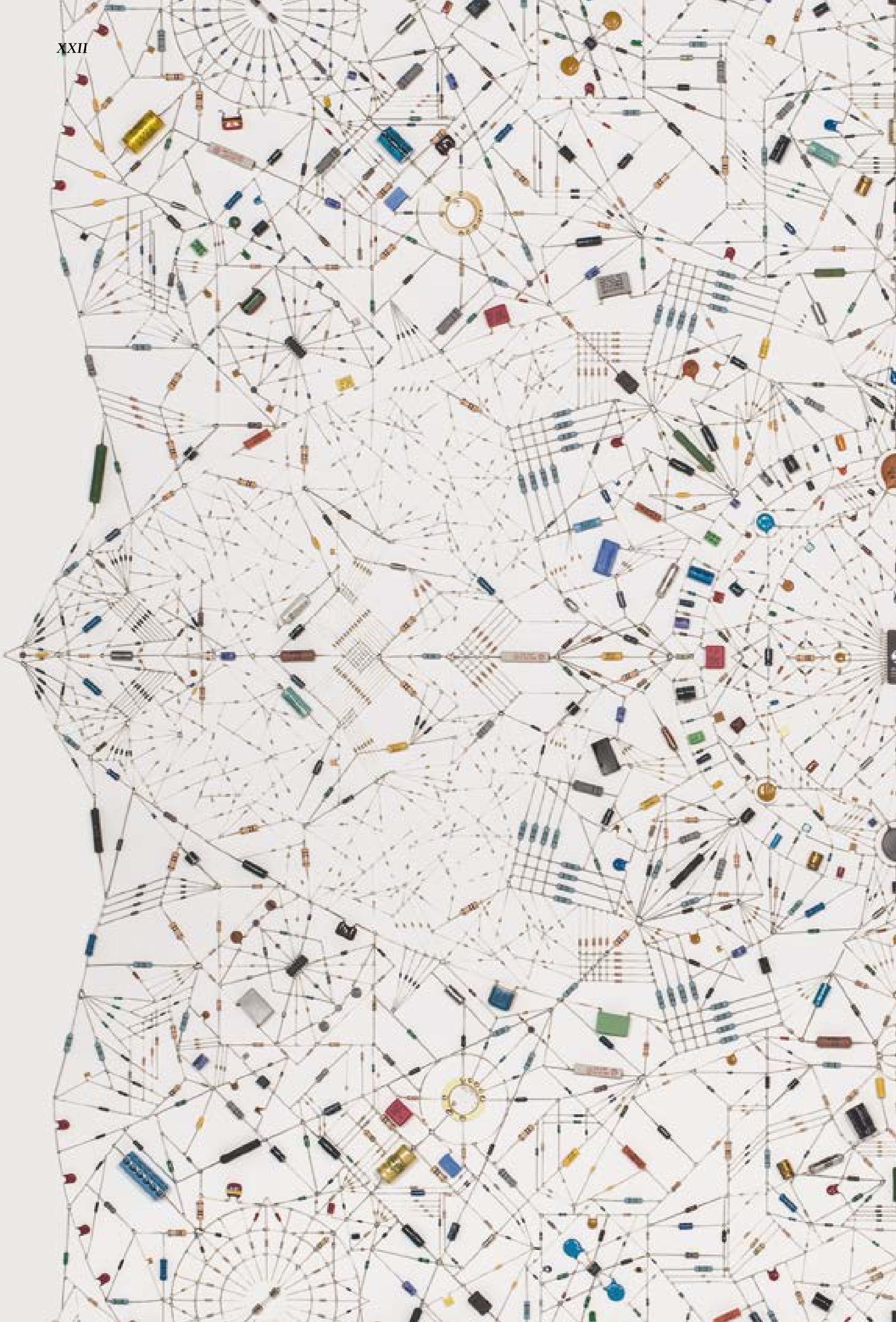
Still, a financial picture of the industry is starting to emerge. Jed Christiansen, who works for Google in London, tracks 182 accelerators which have nurtured more than 3,000 startups.

Between them, those have raised $3.2 billion in follow-on funding and generated “exits” worth $1.8 billion. This landscape is dominated by American firms, with Y Combinator and TechStars franchises leading the pack.

This suggests that accelerators are a winners-take-most market. Founders are highly mobile, and the best will try to get into the leading startup schools, making it harder for the rest to turn a profit.

“There will be a washing out,” predicts Alex Farcet, the founder of Startupbootcamp.

But accelerators alone will not ensure success. It takes a much broader ecosystem for a startup to thrive.



BUSINESS COMMUNITIES

ALL TOGETHER NOW

What entrepreneurial ecosystems need to flourish

The term "ecosystem" for economic clusters was popularised 20 years ago by James Moore, then a business consultant and now a human-rights advocate, who was fond of ecological metaphors.

These days the emphasis is less on "eco" than on "system".

For some experts, such as Daniel Isenberg of Babson College, entrepreneurial ecosystems are made up of "domains", including markets, policy and culture.

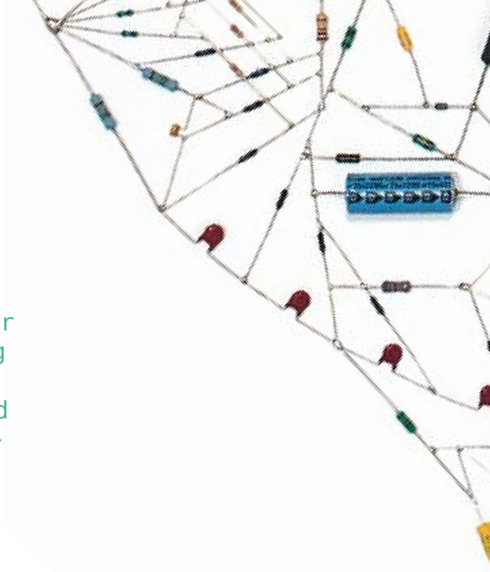
Others describe them as collections of actors that play certain roles, such as providing talent, finance and infrastructure. Yet others talk about them as a set of "resources" entrepreneurs can draw on.

In some ways, ecosystems can be seen as exploded corporations. Finance departments have been replaced by venture-capital funds, legal ones by law firms, research by universities, communications by PR agencies, and so on.

All are nodes in a loose-knit support network for startups that does what in-house product-development teams used to do.

Silicon Valley is the original entrepreneurial ecosystem, but in recent years such communities have popped up all over the world. They often form in places where young people want to live: Berlin, Boulder, London.

Perhaps the most unexpected one is Amman's; despite the political turmoil in the region and a civil war in Syria next door, Jordan's capital has a few hundred startups. Israel boasts the largest number of startups per person.



DON’T BE SELFISH

“Startup Communities” by Brad Feld, co-founder of the TechStars accelerator network, is a to-do list for “building an entrepreneurial ecosystem in your city”, as the subtitle puts it. Mr Feld describes startup communities as self-governing bodies of craftsmen akin to medieval guilds.

The first point of his “Boulder Thesis” (named after the city in Colorado where he lives) is that entrepreneurs must lead. A second is that a startup community must be open to anyone who wants to join. But the main message is that you must “give before you get”.

For an individual, giving before getting is good business. In a fast-moving and uncertain industry he may need someone’s help some day.

“It’s about building social capital,” says Hussein Kanji of Hoxton Ventures, a London venture-capital fund. More important, though, business in ecosystems is not a zero-sum game.

TOM EISENMANN OF HARVARD BUSINESS SCHOOL EXPLAINS THAT STARTUP COLONIES ARE PLATFORMS WITH STRONG NETWORK EFFECTS, A BIT LIKE WINDOWS AND FACEBOOK: THE MORE MEMBERS THEY HAVE AND THE MORE ACTIVITY THEY GENERATE, THE MORE ATTRACTIVE THEY BECOME.

This helps explain some of these ecosystems’ other characteristics: their tolerance of failure, the endless succession of startup-related talks, meetings, parties and, above all, the constant hype. But what really gets those network effects going is “exits” – a sale to a bigger company or a listing on a stock exchange.

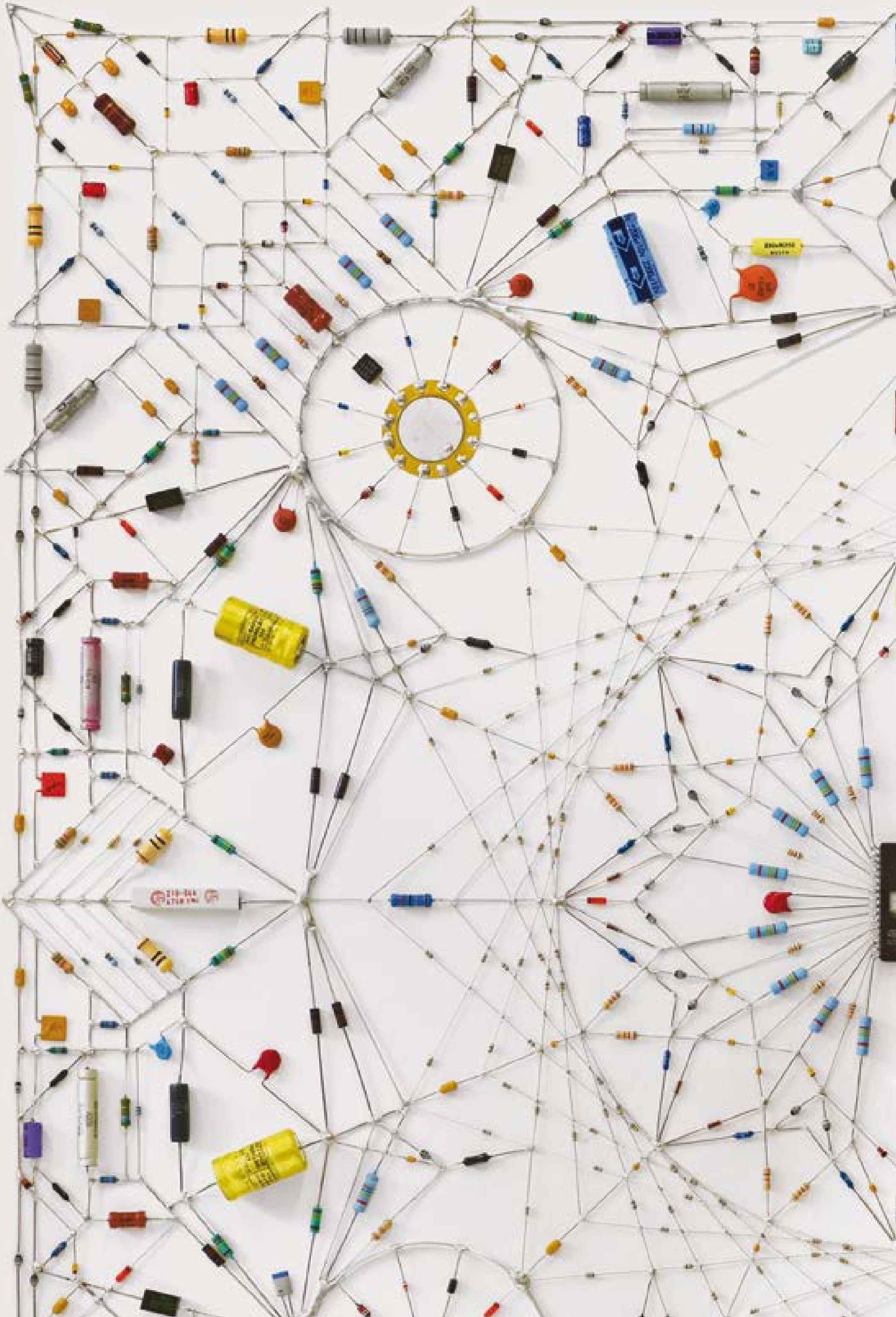
Newly enriched founders often become investors themselves and employees start their own companies. Silicon Valley spawned a succession of “clans” emerging from companies such as Fairchild Semiconductor, Netscape and PayPal.

Government policy can make a big difference. Even in Silicon Valley, defence dollars during the second world war and the cold war primed the pump before venture capital took over.

But ecosystems are more fragile than their leaders’ confident manner suggests. Network effects can easily go the other way. And governments have to tread carefully because national ecosystems increasingly form part of larger global organisms. Founders and investors, already used to entrepreneurial globe-trotting, will readily consider moving to another place if it seems to have more to offer.

Often that place is America. With its huge market and vast pool of venture capital, it is still the destination of choice for founders the world over, even though the country’s restrictive immigration policy since September 11th 2001 has made it more difficult for them to settle there.

If Asia and Europe do not watchout, their best startups could still end up in Silicon Valley or in one of America’s newer ecosystems, such as Austin, Boulder or New York.



PLATFORMS

SOMETHING TO STAND ON

Proliferating digital platforms will be at the heart of tomorrow's economy, and even government.

Providing the right platform is sometimes all it takes.

Instead of planning new pedestrian plazas by the usual bureaucratic means, New York City's department of transportation just marks an area on a street with temporary materials and then lets local organisations, architects and citizens decide what to do with it.

The programme has so far produced 59 plazas, including the Pearl Street Triangle in Brooklyn, a small urban oasis with big potted plants and shaded seating.

In the physical world, platforms can be simply something to stand or build on, like a New York City street. They can also be basic inputs for many other activities and products.

Railways allowed services such as mail order to develop; the power grid brought forth a plethora of electrical household appliances; and standardised containers boosted global trade.

Even Barbie dolls can be seen as platforms for all kinds of profitable add-ons, such as shoes, wigs and handbags.

But although physical platforms have been around for a long time, the idea did not attract much attention until the rise of the software industry in the 1980s and 1990s, explains Michael Cusumano, also of MIT Sloan School of Management.

The industry quickly split into two parts: operating systems (the platforms) and applications that ran on top of them.

Bill Gates, the founder of Microsoft, realised much earlier than his rivals that power (and thus profit) rests with those who control the operating system, in his case Windows.

He also saw that the key to creating a successful platform is building a thriving ecosystem around it to get the network effects going.

The more programs that run on Windows, the more users will want it, and therefore the more attractive it will be to developers.

BEYOND RAILWAYS

Some platforms are internal to a company. In the car industry a vehicle's main components, including steering, suspension and power train, are often shared by different models.

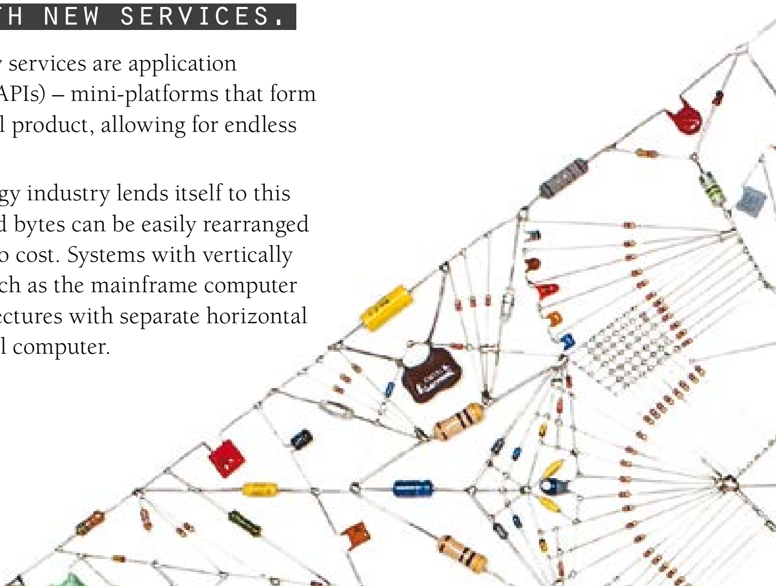
Other platforms, such as Windows, serve an entire industry. Yet others are "closed", meaning that access is tightly controlled, as for Apple's iPhone. The most widespread are the "open" ones, which everyone can use without asking, such as Linux, the open-source operating system.

Intrigued by Microsoft's success and its subsequent antitrust woes, academics such as Annabelle Gawer of Imperial College Business School dug deeper and found that platforms are a common feature of complex systems, whether economic or biological. The core building blocks are kept stable so that the other parts can evolve more rapidly by combining and recombining them and adding new ones.

THAT IS WHAT IS HAPPENING IN THE STARTUP WORLD: NEW FIRMS COMBINE AND RECOMBINE OPEN-SOURCE SOFTWARE, CLOUD COMPUTING AND SOCIAL NETWORKS TO COME UP WITH NEW SERVICES.

In fact, many of these new services are application programming interfaces (APIs) – mini-platforms that form the basis of another digital product, allowing for endless permutations.

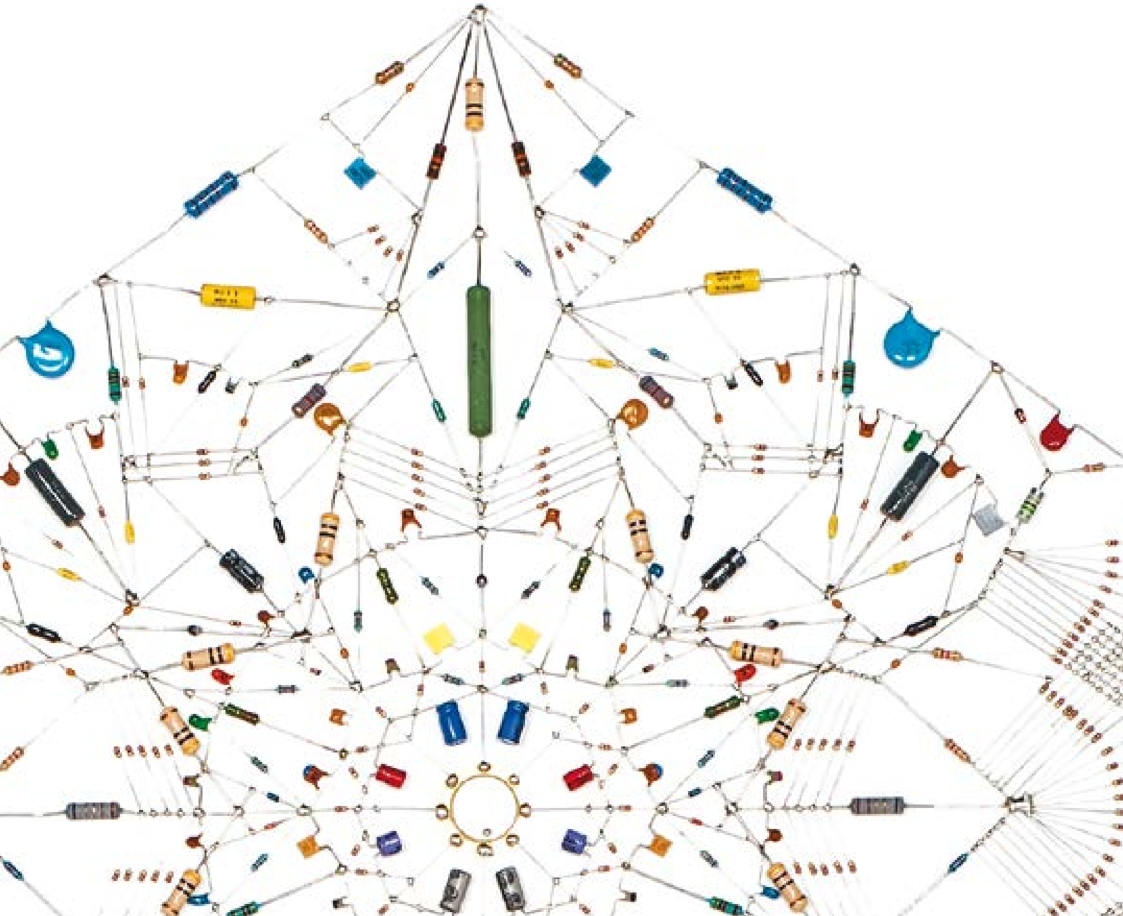
The information-technology industry lends itself to this treatment because bits and bytes can be easily rearranged and replicated at almost no cost. Systems with vertically integrated components such as the mainframe computer tend to give way to architectures with separate horizontal layers such as the personal computer.



Today the IT sector looks like a very flat inverted pyramid: the bottom, where economies of scale rule, is made up of just a few powerful platforms; the top, where creativity and agility are at a premium, is becoming ever more fragmented. There is not much in between.

As software eats more and more industries, they will increasingly take on this shape, predicts Philip Evans of Boston Consulting Group.

By lowering transaction costs, IT allows big chunks of the economy to reshape themselves and turn into what he calls "stacks" – industry-wide ecosystems that will have large platforms at one end of their value chains and a wide variety of modes of production at the other, from startups to social enterprises and communities to user-generated content.



STACKING UP

Outside the IT industry such stacks have only just begun to form. In finance, credit-card networks have long operated as platforms, allowing banks to issue their own plastic money.

Yodlee, which aggregates financial data for more than 55 million bank customers, now allows startups and other firms to plug into its systems. Some smaller banks, including Bancorp, also see themselves as platforms, keeping the books for innovative online banks such as Simple. Big payment processors, such as First Data and TSYS, are also expected to open up their networks.

In telecommunications and electricity, regulators have pushed firms to go horizontal by forcing them to unbundle their services. As power grids become cleverer, smart-meter apps are likely to appear. A new grid in Amsterdam, for instance, is set up in such a way that startups can use it to develop energy-saving applications.

Powerful platforms will also emerge in industries that produce piles of data, such as health care. They can provide startups with opportunities to mine the data to find digital material for new services.

This “platformisation” is spreading even to the very stuff of life. Synthesising DNA is still much more expensive than sequencing it, but the costs are coming down rapidly, and an ecosystem for this ultimate platform is already beginning to form.

Half a dozen cities around the world are now home to bio-hacker spaces (such as New York's Genspace) where genetic hackers learn how to build simple biological machines. Autodesk, a software firm, is developing design tools for DNA, code-named "Project Cyborg".

As with hardware, America's west coast and China's Pearl River Delta may be able to collaborate on this one day – though not everyone would welcome the idea because the implications of such biological machines can be quite scary.

Silicon Valley is already home to a few biosynthesis startups, for example Cambrian Genomics, which is developing a machine to print DNA cheaply. Shenzhen is the base of BGI, formerly known as the Beijing Genomics Institute, which does DNA sequencing on an industrial scale.

IN BUSINESS THE EFFECTS OF PLATFORMS ARE ALREADY MAKING THEMSELVES FELT. COMPANIES MUST EITHER TURN THEMSELVES INTO ONE OR BECOME AGILE ECOSYSTEMS, COMPLETE WITH STARTUPS AND ACCELERATORS, SAYS JOHN HAGEL OF THE DELOITTE CENTRE FOR THE EDGE, A RESEARCH ARM OF DELOITTE, A PROFESSIONAL-SERVICES FIRM.

Coca-Cola, for instance, is planning to launch accelerators in nine cities, including Berlin and Istanbul. Such efforts will change the understanding of what constitutes a firm, says Mr Hagel.

The spread of platforms will bring radical changes for workers, too. Many more will become founders or be employed by startups. "They will be labourers in the technological gardens where a thousand flowers bloom, but only a few will grow to become really big," says Thomas Malone of the MIT Sloan School of Management.

And experts note that some people may find it hard to get used to such a fast-moving world of work.

Governments will also have to adapt. Antitrust authorities will need to be alert because platform operators, which are open quasi-monopolists, will have strong incentives to maintain their dominance.

The most powerful of them, such as Amazon, Facebook or Google, will amass huge amounts of information and will form the central data banks for the knowledge economy.

No less than companies, governments will have to consider what role they want to play in this new world. Currently they resemble a "vending machine" offering a limited set of choices, says Tim O'Reilly, an internet expert. But they would work much better as a platform for a "thriving bazaar" of government services, offering basic building blocks that others can use.

This suggests that the state needs to limit what it does but do it well. "It has to be both narrower and stronger," says Paul Romer of New York University. In a future digital world big business and big government may play similar roles, as platform managers and curators of ecosystems.

Cities or even governments may offer services to other cities and countries in fields such as online identity and regulatory oversight.

ALL IN ALL, THE IMPACT OF PLATFORMISATION WILL BE MONUMENTAL. THOSE WHO SEE THE CURRENT ENTREPRENEURIAL EXPLOSION AS MERELY ANOTHER DOTCOM BUBBLE SHOULD THINK AGAIN.

Today's digital primordial soup contains the makings of the economy and perhaps even the government of tomorrow. ■

The Economist, "Special Report Tech Startups, A Cambrian moment", January 18th, 2014.