Platinum® CAPITAL LIMITED

ANNUAL REPORT 2015

PLATINUM CAPITAL LIMITED

ABN 51 063 975 431

DIRECTORS
Bruce Coleman
Jim Clegg
Richard Morath

COMPANY SECRETARY
Janna Vynokur

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

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

SHAREHOLDER LIAISON
Liz Norman

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

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

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

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CHAIRMAN'S REPORT

Investment Performance

I am pleased to report that Platinum Capital Limited (PMC) has had another good 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 2015, Platinum Capital's net asset value (NAV) increased by 17.63% pre-tax, after fees and expenses, and assuming the reinvestment of dividends, versus the 23.67% gain of the benchmark Morgan Stanley Capital International All Country World Net Index [MSCI] in $A terms. The 12 months return from the Australian All Ordinaries Accumulation Index was 5.68%. After allowing for all tax liabilities, both realised and unrealised, the Company's NAV increased by 13.12%.

For the six months to 30 June 2015, the pre-tax return of the Company was 9.93%, after fees and expenses, and assuming the reinvestment of dividends, as compared to the benchmark MSCI return of 9.31%.

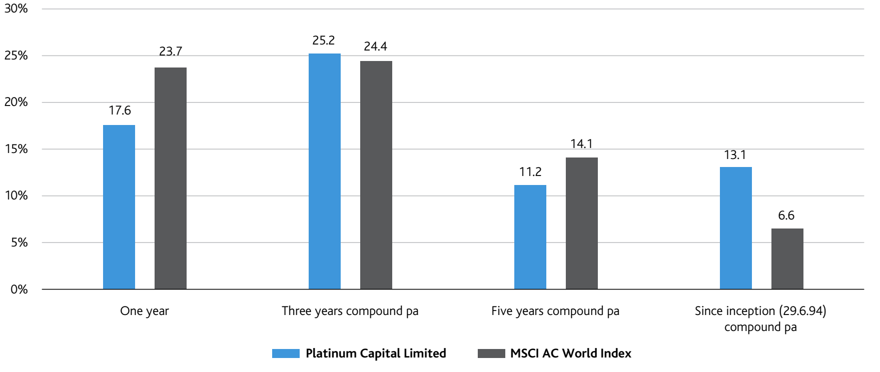
These pleasing results are a direct result of the Investment Manager's investment style of identifying companies that have sound businesses and promising growth prospects but are temporarily out of favour with the markets. The Investment Manager has been progressively tilting the portfolio towards Asia and this disposition is quite different to that of most global investment managers in the Australian market.

Total shareholder return, measured in terms of Company share price plus dividends paid, was 5.95% for the 12 months to 30 June 2015, following the exceptional 27.24% for the 12 months to 30 June 2014.

Since inception, the compound annual appreciation of the Company's net assets on a pre-tax basis has been 13.05% per annum compared to the return from the MSCI of 6.63%. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.48% annually over the same 21 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 2015 (%)



* 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

For the year ended 30 June 2015, the Company made a statutory pre-tax operating profit of $63.5 million and a post-tax operating profit of $44.8 million. This represents a 35.71% increase in pre-tax operating profit and 36.31% in post-tax profit from the prior year.

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 percentage change in its pre-tax NAV plus dividends paid. On this measure, the Company's pre-tax net asset value increased to $1.70 at 30 June 2015 and, after adjusting for dividends and taxes, this represents an increase of 17.63%.

Dividends

A fully-franked dividend of 6 cents will be paid for the year ended 30 June 2015, making 11 cents for the full year.

I am pleased to report that the Company is now building up its pool of available franking credits as a result of the strong level of realised profits derived during the year and the associated tax payments.

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

The Board has recently adopted a new accounting policy, which allows for the creation of a dividend profit reserve. This will mean that to the extent that any current year or prior period profits are not distributed as a dividend, the Board will set aside all or part of those undistributed profits to a separate profit reserve for the payment of future franked dividends, rather than including those profits within retained earnings.

The benefit of adopting this policy will ensure that any undistributed profits will not be netted against future losses and will remain available for future franked dividend payments. This will enable the Company to set aside some of the gains made in years where returns are strong, and will allow those gains to be distributed as franked dividends in future years when returns are small or negative.

Establishment of new Asian LIC

We note that the Investment Manager has recently completed an Initial Public Offering (IPO) for a new Asian Listed Investment Company (LIC), Platinum Asia Investments Limited (PAI). This investment product will provide PAI investors with a convenient means of gaining exposure to the fastest growing equities markets in the Asian region ex Japan and to take advantage of long-term capital growth investment opportunities in a region that is undergoing deep transformation. The IPO closed on 7 September 2015 and is expected to list on the ASX on 21 September 2015.

As the inaugural Chairman of PAI, I believe that the global exposure offered by PMC can be supplemented by the regional exposure offered by PAI. Investors should seek their own professional advice to determine if this investment is appropriate for them.

Changes to the Board and Secretariat

On 5 June 2015, Bruce Phillips resigned as Chairman of the Company and Non-Executive Director after a period of six years. Mr Phillips is committed to some new and significant business projects in another industry and unfortunately can no longer commit to the position of Company Chairman.

On the same day that Mr Phillips resigned, I was appointed to the position of Company Chairman after serving as Non-Executive Director for the past 11 years. This provides the Board with good continuity for the governance of the Company.

In addition, Philip Howard resigned as Finance Director on 25 May 2015 after a period of four years. Mr Howard's role as Company Secretary has been filled by Ms Janna Vynokur who joined Platinum Asset Management from Allens Linklaters on 25 May 2015.

Jim Clegg was appointed to the Board as Non-Executive Director on 5 June 2015. Mr Clegg has excellent credentials with over 27 years of experience in the financial services industry.

On 21 August 2015, the Company announced further changes to the Board, which are designed to ensure that the structure of the PMC Board is:

- consistent with the Board structure of the new Platinum LIC, Platinum Asia Investments Limited (PAI); and
- in keeping with present corporate governance principles to have a majority of independent Directors.

The change to the PMC Board involved Kerr Neilson and Andrew Clifford relinquishing their position as Board members. Both will continue in their positions as current Chief Executive Officer (CEO) and Chief Investment Officer (CIO) respectively of Platinum Investment Management Limited (PIML) and Executive Directors of Platinum Asset Management Limited (PTM).

The PMC Board structure, effective from 21 August 2015, will therefore consist solely of Non-Executive Directors, being myself as Chairman, Richard Morath and Jim Clegg. We will continue to manage the Company's affairs in accordance with company law and ASX responsibilities.

It is important for shareholders to understand that there is absolutely no change in the investment mandate responsibility of PIML. In fact, this change will have the effect of increasing the time available for Mr Neilson and Mr Clifford to focus on the investment portfolio. They will continue to regularly report to the PMC Board, provide quarterly investment reporting to PMC shareholders and also annual investment updates at the PMC Annual General Meeting.

Proposed Change to Fee Structure

PMC also wishes to advise of a proposed change to the management fees payable to the Investment Manager, Platinum Investment Management Limited (PIML). This proposal is subject to the shareholders' approval at the Annual General Meeting to be held on 29 October 2015.

The current management fee is comprised of a base management fee of 1.5% per annum of the PMC portfolio value and a performance fee of 10% of the amount by which the portfolio's annual performance (at 30 June) exceeds the return achieved by the benchmark Morgan Stanley Capital International All Country World Net Index [MSCI] in $A terms plus a 5% hurdle. The proposed new management fee will comprise of a lower base management fee of 1.1% per annum of the PMC portfolio value and a performance fee of 15% of the amount by which the portfolio's annual return (at 30 June) exceeds the MSCI return.

The proposed management fee structure is consistent with the management fee structure for PAI. Both LICs are managed by PIML.

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.

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 Non-Executive Directors are once 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 2015-2016
As highlighted recently by our Investment Manager, "we have placed our faith in the opportunities of Asia with countries such as Japan achieving strong profit growth. We sense there will be a turn-up in profitability among Indian companies as the economy begins to expand. The case for our Chinese holdings rests on the reform agenda and the opportunities the economy now offers with services contributing a greater share of activity than traditional manufacturing. We feel the current sell-off is a necessary adjustment after such a strong move. A liquidation wash-out should offer a good buying opportunity".

Finally
The long-term performance of the Company speaks volumes about the skill and expertise of the Investment Manager, so I wish to express my appreciation of the work done by Kerr Neilson, Andrew Clifford and their team over the last year.

Bruce Coleman
Chairman

10 September 2015

FINANCIAL STATEMENTS 2015

PLATINUM CAPITAL LIMITED

General information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 13 August 2015. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 10 August 2015.

Distribution of Equity Securities

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

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	960
1,001 to 5,000	2,390
5,001 to 10,000	2,426
10,001 to 100,000	5,231
100,001 and over	266
	11,273
Holding less than a marketable parcel (of $500)	500

Equity Security Holders

Twenty largest quoted equity security holders

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

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Australian Executor Trustees Limited	3,348,692	1.43
K Neilson	1,977,646	0.85
Moya Pty Limited	1,694,406	0.73
Nulis Nominees (Australia) Limited	1,683,194	0.72
Citicorp Nominees Pty Limited	1,182,381	0.51
Navigator Australia Limited	1,106,508	0.47
Forsyth Barr Custodians Limited	1,058,749	0.45
Bond Street Custodians Limited	850,000	0.36
JP Morgan Nominees Australia Limited	822,549	0.35
UBS Wealth Management Australia Nominees Pty Limited	766,273	0.33
Questor Financial Services Limited	700,819	0.30
HSBC Custody Nominees (Australia) Limited – a/c 2	692,658	0.30
Rogand Superannuation Pty Limited	650,000	0.28
HSBC Custody Nominees (Australia) Limited	645,592	0.28
Metropolitan Cemeteries Board	645,000	0.28
I T Heffernan Pty Limited	630,000	0.27
Feboco Investments Pty Limited	590,337	0.25
Mr Raymond Ireson	582,122	0.25
Custodial Services Limited	535,713	0.23
Bond Street Custodians Limited	526,165	0.23
	20,688,804	8.87

SHAREHOLDER INFORMATION
CONTINUED

Substantial Holders
There are no substantial holders in the Company.

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

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

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	18 August 2015
Record (books close) date for dividend	20 August 2015
Dividend paid	11 September 2015
Annual General Meeting	29 October 2015

These dates are indicative and may be changed.

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

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, and the close-ended nature of the Company, distinguishes it from unlisted 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 regions.

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 2015, 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 whole financial year and up to the date of this report, unless otherwise stated:

Bruce Coleman	(Chairman since 5 June 2015 and Non-Executive Director)
Richard Morath	(Non-Executive Director)
Jim Clegg	(Non-Executive Director since 5 June 2015)
Kerr Neilson	(Managing Director)
Andrew Clifford	(Executive Director)

Bruce Phillips was Chairman and Non-Executive Director until 5 June 2015. Philip Howard was Executive Director and Company Secretary until 25 May 2015.

Principal Activities

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 $63,519,000 (2014: $46,805,000) and net profit after tax was $44,826,000 (2014: $32,885,000). Income tax expense for the year was $18,693,000 (2014: $13,920,000).

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 2015, the Company's pre-tax NAV increased from $1.64 per share to $1.70 per share. In addition, shareholders received 10 cents per share in dividends during the year.

For the 12 months ending 30 June 2015, Platinum Capital's net asset value (NAV), after fees and expenses, and assuming reinvestment of dividends, increased by 17.63% pre-tax, compared to the 23.67% gain of the benchmark Morgan Stanley Capital International All Country World Net Index [MSCI] in $A terms.

The Company's pre-tax return, after fees and expenses, and assuming reinvestment of dividends, for the 6 months to 30 June 2015 was 9.93% compared to the return from the MSCI AC World Net Index in $A terms of 9.31%.

The Investment Manager has "placed its faith in the opportunities of Asia, with Japan achieving strong profit growth, an expectation that there will be a turn-up in profitability among Indian companies as the economy begins to expand, and China with its deep reforms and ongoing transformation into a more service oriented economy. The remaining 40% of the portfolio – in the Western hemisphere – relies on each company's valuations and specific growth prospects. Conditions in the Eurozone are now very different – with low contagion prospects".

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

The Chairman's Report contains further information about the Company's performance for the year.

Dividend profit reserve

To the extent that any current year or prior period profits are not distributed as dividends, the Company may set aside some or all of the undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings. On 13 August 2015, the Directors decided to transfer the 30 June 2015 retained earnings balance to the newly created dividend profit reserve.

Dividends

On 13 August 2015, the Directors declared a 6 cents per share ($14,000,000) fully-franked dividend, with a record date of 20 August 2015, payable to shareholders on 11 September 2015, out of the newly created dividend profit reserve. A fully-franked dividend of 5 cents per share ($11,609,000) was paid on 13 March 2015.

A 5 cents per share ($11,554,000) fully-franked dividend was paid for the year ended 30 June 2014.

The dividend reinvestment plan (DRP) discount is at a 2.5 per cent discount to the relevant share price.

Matters subsequent to the End of the Financial Year

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

DIRECTORS' REPORT
CONTINUED

Likely Developments and Expected Results of Operations
The Company will continue to pursue its investment objective, which is to generate strong investment returns over time. The methods of operating the Company are not expected to change in the foreseeable future.

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

Information on Directors
Bruce Coleman BSC, BCOM, CA, FFIN
Chairman since 5 June 2015, Non-Executive Director since April 2004 and member of the Audit and Risk Committee. (Age 65)

Mr Coleman has worked in the finance and Investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. Mr Coleman 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. Mr Coleman is Chairman of Resolution Capital Limited and on 24 June 2015, Mr Coleman was appointed as Chairman and Non-Executive Director of Platinum Asia Investments Limited.

Richard Morath BA, FIAA, ASIA
Independent Non-Executive Director since March 2009 and Chairman of the Audit and Risk Committee. (Age 66)

Mr Morath has over 41 years of experience in life insurance, funds management, banking and financial planning. Mr Morath is currently Non-Executive Director and Chairman of the Advice & Licences Boards of all Financial Planning companies in National Australia Bank/MLC and Chairman of National Australia Trustees. Mr Morath is also a Director of JANA Investment Advisors Limited, BNZ Life and Chairman of BNZ Investments Services Limited, and during the year, Mr Morath was appointed a Director of ASX listed, Wealth Defender Equities Limited.

Jim Clegg BRUR SC (HONS), DIP AG EC
Independent Non-Executive Director since 5 June 2015 and member of the Audit and Risk Committee. (Age 65)

Mr Clegg has over 27 years of experience in the financial services industry. Mr Clegg has been a Director of Godfrey Pembroke, Berkley Group and Centric Wealth. Mr Clegg is a Trustee of The Walter & Eliza Hall Trust.

Kerr Neilson BCOM, ASIP
Managing Director for 21 years. (Age 65)

Appointed as Managing Director upon incorporation. Mr Neilson 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, Mr Neilson worked in both the UK and South Africa in stock broking.

Andrew Clifford BCOM (HONS)
Director for 21 years. (Age 49)

Appointed a Director of the Company upon incorporation. Mr Clifford 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.

Company Secretary

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

Philip Howard was Company Secretary until 25 May 2015.

Meetings of Directors

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

	FULL BOARD		AUDIT AND RISK COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD
Bruce Coleman	5	5	4	4
Richard Morath	5	5	4	4
Jim Clegg (appointed 5 June 2015)	1	1	–	–
Kerr Neilson	5	5	–	–
Andrew Clifford	5	5	–	–
Bruce Phillips (until 5 June 2015)	5	5	4	4
Philip Howard (until 25 May 2015)	4	4	–	–

Held: represents the number of meetings held during the time the Director held office.

DIRECTORS' REPORT
CONTINUED

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

Indemnity and Insurance of Auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company against a liability incurred by the auditor.

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

Non-Audit Services
Details of the amounts paid or payable to the auditor for other (taxation) services provided during the financial year by the auditor are outlined in Note 18 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in Note 18 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

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

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

On behalf of the Directors

Bruce Coleman
Director

Kerr Neilson
Director

Sydney, 13 August 2015

DIRECTORS' REPORT
CONTINUED

Remuneration Report (Audited)

Executive Summary

There were only four officers remunerated by the Company during the year (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 between 2003 and 2015.
- 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 $169,725 in aggregate was paid/payable in 2015.
- 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 2015.

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

Key Management Personnel ("KMP")

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

NAME	POSITION
Bruce Coleman	Chairman since 5 June 2015 and Non-Executive Director for the full financial year
Bruce Phillips	Chairman and Non-Executive Director until 5 June 2015
Richard Morath	Non-Executive Director
Jim Clegg	Non-Executive Director since 5 June 2015
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director
Philip Howard	Executive Director until 25 May 2015

There are no employees within the Company, other than the Non-Executive Directors disclosed above.

Shareholders' Approval of the 2014 Remuneration Report
A 25% or higher "no" vote on the Remuneration Report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed.

At the last AGM, the Company Remuneration Report passed unanimously on a show of hands. Despite this outcome, 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, was $350,000 per annum (including superannuation). Despite the ability to pay remuneration up to this level, only $169,725 in aggregate was paid/payable in 2015.

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 advisor. 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.

DIRECTORS' REPORT
CONTINUED

From 1 July 2015, the Executive Directors resolved to increase the base pay of the Company Chairman to $60,000 (from $55,000) and the Non-Executive Directors to $55,000 (from 50,000). This represents the first increase in base pay for the Non-Executive Directors in 12 years (since 2004), and reflects:

- The time needed for the task of the Non-Executive Directors to be performed;
- The risks inherent in the Directorship;
- Industry comparison to other Listed Investment Companies;
- The qualifications and experience of the Non-Executive Directors;
- The increase in size and complexity of PMCs' operations;
- The number and extent of Board and related sub-committee meetings (which appears on page 15 of the Directors' Report).

Remuneration for Non-Executive Directors

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

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Bruce Coleman					
FY 2015	50,000	4,750	–	–	54,750
FY 2014	50,000	4,625	–	–	54,625
Bruce Phillips					
FY 2015(1)	51,409	4,884	–	–	56,293
FY 2014	55,000	5,088	–	–	60,088
Richard Morath					
FY 2015	50,000	4,750	–	–	54,750
FY 2014	50,000	4,625	–	–	54,625
Jim Clegg					
FY 2015(2)	3,591	341	–	–	3,932
FY 2014	–	–	–	–	–
Total Non-Executive remuneration					
FY 2015	155,000	14,725	–	–	169,725
FY 2014	155,000	14,338	–	–	169,338

(1) The remuneration paid to Bruce Phillips is for the period 1 July 2014 to the date of his resignation as Chairman and Non-Executive Director on 5 June 2015.

(2) Jim Clegg's remuneration is for the period since his appointment on 5 June 2015 to 30 June 2015.

Executive Director Remuneration

The Executive Directors (Kerr Neilson and Andrew Clifford) are employees of the Investment Manager, Platinum Investment Management Limited. Philip Howard was also an employee of the Investment Manager prior to his resignation on 25 May 2015.

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.

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 letters of appointment that all Directors signed during the year.
- All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- The tenure of all Directors (other than the Managing Director) is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are only entitled to receive their statutory entitlements.
- Non-Executive Directors may resign by written notice to the Chairman and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

DIRECTORS' REPORT
CONTINUED

Link between the Remuneration of the Non-Executive Directors and Company Performance

	2015[(1)]	2014[(1)]	2013	2012	2011
Total net investment income/(loss) ($'000)	**71,098**	53,662	79,555	(10,970)	(8,271)
Expenses ($'000)	**7,579**	6,857	4,707	4,294	4,846
Profit/(loss) after tax ($'000)	**44,826**	32,885	58,802	(17,546)	(8,773)
Earnings per share (cents per share)	**19.29**	16.22	35.53	(10.59)	(5.35)
Dividends (cents per share)	**11.0**	8.0	7.0	–	5.9
Net asset value (pre-tax) (30 June) ($ per share)	**1.70**	1.64	1.51	1.07	1.19
Closing share price (30 June) ($)	**1.77**	1.765	1.45	0.97	1.16
Total fixed remuneration (salary and superannuation) paid ($)	**169,725**	169,338	168,950	168,950	168,950

(1) The increase in expenses for 2014 and 2015 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.

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

Interests of Non-Executive and Executive Directors in shares

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

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	240,000	–	–	240,000
Richard Morath	32,400	–	–	32,400
Jim Clegg	–	20,000	–	20,000
Kerr Neilson	1,977,647	–	–	1,977,647
Andrew Clifford	1,694,407	–	–	1,694,407

Directors' Interests in Contracts

The Executive Directors are employees of and have a relevant interest in the Investment Manager and indirectly receive a portion of the management fee, through any dividends declared by Platinum Investment Management Limited. They do not receive any Directors' remuneration directly from the Company.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

Joe Sheeran
Partner
PricewaterhouseCoopers

13 August 2015

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	**2015 $'000**	2014 $'000
Investment income			
Dividends		**8,426**	9,213
Interest		**1**	122
Net gain on equities/derivatives		**48,550**	44,804
Net gains on forward currency contracts		**9,831**	816
Net foreign exchange gains/(losses) on overseas bank accounts		**4,290**	(1,293)
Total net investment income		**71,098**	53,662
Expenses			
Management fees	19	**(5,831)**	(4,883)
Custody		**(353)**	(313)
Non-capital raising fees and charges		**–**	(122)
Registry		**(258)**	(275)
Continuous reporting disclosure		**(210)**	(165)
Directors' fees		**(170)**	(169)
Auditor's fees	18	**(111)**	(107)
Taxation services	18	**(45)**	(51)
Transaction costs		**(363)**	(591)
Other expenses		**(238)**	(181)
Total expenses		**(7,579)**	(6,857)
Profit before income tax expense		**63,519**	46,805
Income tax expense	4	**(18,693)**	(13,920)
Profit after income tax expense for the year attributable to the owners of Platinum Capital Limited	12	**44,826**	32,885
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year attributable to the owners of Platinum Capital Limited		**44,826**	32,885

		CENTS	CENTS
Basic earnings per share	11	**19.29**	16.22
Diluted earnings per share	11	**19.29**	16.22

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	NOTE	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	23	**37,076**	21,024
Financial assets at fair value through profit or loss	6	**361,856**	354,827
Receivables	8	**622**	600
Income tax receivable		**265**	–
Total assets		**399,819**	376,451
Liabilities			
Payables	9	**881**	1,502
Income tax payable		**–**	6,200
Net deferred tax liabilities	5	**18,955**	14,418
Financial liabilities at fair value through profit or loss	7	**1,408**	1,331
Total liabilities		**21,244**	23,451
Net assets		**378,575**	353,000
Equity			
Issued capital	10	**301,154**	297,242
Retained profits	12	**77,421**	55,758
Total equity		**378,575**	353,000

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	CONTRIBUTED EQUITY $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2013	**196,864**	**38,078**	**234,942**
Profit after income tax expense for the year	–	32,885	32,885
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	32,885	32,885
Transactions with owners in their capacity as owners:			
Issue of shares in relation to the dividend reinvestment plan and unclaimed dividends (Note 10)	2,818	–	2,818
Issue of shares in relation to the Placement and Rights Offer	98,340	–	98,340
Transaction costs on the Placement and Rights offer, net of tax	(780)	–	(780)
Dividends paid (Note 13)	–	(15,205)	(15,205)
Balance at 30 June 2014	**297,242**	**55,758**	**353,000**

	ISSUED CAPITAL $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2014	**297,242**	**55,758**	**353,000**
Profit after income tax expense for the year	–	44,826	44,826
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	44,826	44,826
Transactions with owners in their capacity as owners:			
Issue of shares in relation to the dividend reinvestment plan and unclaimed dividends (Note 10)	3,912	–	3,912
Dividends paid (Note 13)	–	(23,163)	(23,163)
Balance at 30 June 2015	**301,154**	**77,421**	**378,575**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2015 $'000	2014 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(198,309)**	(261,398)
Proceeds from sale of financial assets		**248,128**	187,319
Dividends received		**8,348**	5,463
Interest received/(paid)		**(6)**	121
Management fees paid		**(5,801)**	(4,729)
Other expenses		**(1,646)**	(2,569)
Income tax paid		**(19,989)**	(6,864)
Net cash from/(used in) operating activities	24	**30,725**	(82,657)
Cash flows from financing activities			
Proceeds from issue of unclaimed dividends	10	**126**	86
Net proceeds from the issue of shares in relation to the Placement and Rights Offer		**–**	97,560
Dividends paid – net of dividend reinvestment plan		**(19,400)**	(12,439)
Net cash from/(used in) financing activities		**(19,274)**	85,207
Net increase in cash and cash equivalents		**11,451**	2,550
Cash and cash equivalents at the beginning of the financial year		**21,024**	19,189
Effects of exchange rate changes on cash and cash equivalents		**4,601**	(715)
Cash and cash equivalents at the end of the financial year		**37,076**	21,024

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant Accounting Policies

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

Basis of preparation

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

The financial statements have been prepared on the basis of fair-value measurement of assets and liabilities.

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

Critical accounting estimates

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

Financial assets/liabilities at fair value through profit or loss

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

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

1. Significant Accounting Policies Continued

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

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

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

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

Fair value in an active market

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

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

Fair value in an inactive market or unquoted market

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

Recognition/derecognition

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant Accounting Policies Continued

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

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

Operating segments
Operating segments are presented using a single operating segment. However AASB 8: *Operating Segments* requires certain entity-wide disclosures. Refer to Note 3 for further information.

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

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

The financial statements are presented in Australian Dollars, which is Platinum Capital Limited's functional and presentation currency.

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

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

1. Significant Accounting Policies Continued

Directors' entitlements

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Withholding tax expense on foreign dividends has been included as part of income tax expense.

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

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

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

Receivables

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

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held 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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant Accounting Policies Continued

Cash and cash equivalents Continued

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

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.

Trade and other payables

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Dividend profit reserve

To the extent that any current year or prior period profits are not distributed as dividends, the Company may set aside some or all of the undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings.

Basic and diluted earnings per share

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

1. Significant Accounting Policies Continued

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

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

AASB 9: *Financial Instruments (and applicable amendments)*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It now includes revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018.

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

1. Significant Accounting Policies Continued

New Accounting Standards and Interpretations not yet mandatory or early adopted
Continued

AASB 15: *Revenue from contracts with customers*
The main objective of this new standard is to provide a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The Company's main source of income are gains on equities and derivatives, forward currency contracts and overseas bank accounts, as well as interest and dividend income. All of these income types are outside the scope of the standard. The standard was assessed as not having a material impact on the Company in the current or future reporting period.

There are no other standards 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. Critical Accounting Judgements, Estimates and Assumptions
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

Fair value measurement hierarchy (refer to Note 16)
The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

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

2. Critical Accounting Judgements, Estimates and Assumptions Continued

Recovery of deferred tax assets (refer to Note 5)

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

3. Operating Segments

Identification of reportable operating segments

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

	2015 $'000	2014 $'000
(a) Investment income by investment type		
Equity securities	**61,236**	63,752
Derivatives	**(4,260)**	(9,735)
Foreign currency contracts	**9,831**	816
Bank accounts	**4,291**	(1,171)
Total	**71,098**	53,662

Revenue by geographical area

	2015 $'000	2014 $'000
(b) Investment income by geographical area		
Japan	**6,915**	3,041
Asia ex Japan	**40,536**	14,642
Australia	**677**	3,019
Europe – Euro	**3,828**	17,783
Europe – Other	**7,699**	596
North America	**2,704**	14,322
South America	**(1,263)**	147
Africa	**171**	(704)
Unallocated revenue – net gains on forward currency contracts	**9,831**	816
Total	**71,098**	53,662

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

	2015 $'000	2014 $'000
4. Income Tax Expense		
Income tax expense		
Current tax	**13,519**	12,403
Deferred tax – origination and reversal of temporary differences	**4,537**	563
Transaction costs on capital raising expenses	**–**	334
Withholding tax on foreign dividends	**633**	620
Under provision of prior period tax	**4**	–
Aggregate income tax expense	**18,693**	13,920
Deferred tax included in income tax expense comprises:		
Increase in deferred tax liabilities (Note 5)	**4,537**	563
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	**63,519**	46,805
Tax at the statutory tax rate of 30%	**19,056**	14,042
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Allowable credits for foreign tax paid	**(367)**	(122)
Under provision of prior period tax	**4**	–
Income tax expense	**18,693**	13,920

5. Net Deferred Tax Liabilities

	2015 $'000	2014 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Audit fees	**(9)**	(22)
Taxation services	**(10)**	(9)
Shareholder communication and reporting	**(55)**	(45)
Capital raising and legal costs	**(223)**	(298)
Dividend receivable	**152**	130
Difference in cost base for tax compared to accounting	**(711)**	241
Unrealised gains on financial assets	**19,811**	14,421
Deferred tax liability	**18,955**	14,418
Movements:		
Opening balance	**14,418**	13,855
Debited to profit or loss (Note 4)	**4,537**	563
Closing balance	**18,955**	14,418

The net deferred tax liability is comprised of $1,008,000 (2014: $374,000) of deferred tax assets and $19,963,000 (2014: $14,792,000) of deferred tax liability.

The Company has accumulated net unrealised gains on investments of $66,037,000 (2014: $48,071,000). The tax impact on these unrealised gains formed a major part of the overall net deferred tax balance of $19,811,000 (2014: $14,421,000).

The settlement of the deferred tax liability will depend on the timing of realisation of investments.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

	2015 $'000	2014 $'000
6. Financial Assets at Fair Value through Profit or Loss		
Equities securities – designated at fair value through profit or loss	**359,519**	354,439
Corporate bonds	**274**	–
Derivatives – designated at fair value through profit or loss	**1,748**	197
Foreign currency contracts – designated at fair value through profit or loss	**315**	191
	361,856	354,827

Refer to Note 16 for further information on fair value measurement.

7. Financial Liabilities at Fair Value through Profit or Loss

	2015 $'000	2014 $'000
Derivatives – designated at fair value through profit or loss	**689**	626
Foreign currency contracts – designated at fair value through profit or loss	**719**	705
	1,408	1,331

Refer to Note 15 for further information on financial risk management.

Refer to Note 16 for further information on fair value measurement.

8. Receivables

	2015 $'000	2014 $'000
Proceeds from sale of financial assets	**19**	–
Prepayments	**–**	81
Capital Gains Tax receivable	**31**	27
Dividends receivable	**508**	430
Interest receivable	**7**	–
Goods and Services Tax receivable	**57**	62
	622	600

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 15.

	2015 $'000	2014 $'000
9. Payables		
Payables on purchase of financial assets	**–**	645
Trade creditors (unsecured)	**816**	768
Unclaimed dividends payable to shareholders	**63**	86
Group Tax payable	**2**	3
	881	1,502

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 15.

	2015 SHARES	2014 SHARES	**2015 $'000**	2014 $'000
10. Equity – Issued Capital				
Ordinary shares – fully paid	**233,325,992**	231,071,938	**301,154**	297,242

Movements in ordinary share capital

DETAILS	DATE	SHARES	$'000
Balance	1 July 2013	165,860,278	196,864
Dividend reinvestment plan	9 September 2013	1,082,010	1,623
Reinvestment of unclaimed dividends	16 September 2013	18,940	29
Placement of shares	18 November 2013	25,044,183	38,818
Shares issued under Rights Offer	19 December 2013	38,401,081	59,522
Less transaction costs on Placement and Rights Offer net of tax		–	(780)
Dividend reinvestment plan	10 March 2014	633,782	1,109
Reinvestment of unclaimed dividends	13 March 2014	31,664	57
Balance	30 June 2014	231,071,938	297,242
Dividend reinvestment plan	8 September 2014	1,085,081	1,888
Reinvestment of unclaimed dividends	17 September 2014	33,240	59
Dividend reinvestment plan	13 March 2015	1,096,805	1,898
Reinvestment of unclaimed dividends	18 March 2015	38,928	67
Balance	30 June 2015	233,325,992	301,154

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

10. Equity – Issued Capital Continued

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

Share buy-back

There is no current on-market share buy-back.

11. Earnings Per Share

	2015 $'000	2014 $'000
Profit after income tax attributable to the owners of Platinum Capital Limited	**44,826**	32,885
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**232,319,773**	202,804,111
	CENTS	CENTS
Basic earnings per share	**19.29**	16.22
Diluted earnings per share	**19.29**	16.22

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 and shares issued pursuant to the capital-raising, therefore diluted earnings per share equals basic earnings per share.

12. Equity – Retained Profits

	2015 $'000	2014 $'000
Retained profits at the beginning of the financial year	**55,758**	38,078
Profit after income tax expense for the year	**44,826**	32,885
Dividends paid (Note 13)	**(23,163)**	(15,205)
Retained profits at the end of the financial year	**77,421**	55,758

On 13 August 2015, the Directors decided to transfer the balance of the 30 June 2015 retained earnings to a newly created dividend profit reserve.

13. Equity – Dividends

Dividends

Dividends paid during the financial year were as follows:

	2015 $'000	2014 $'000
Final dividend for the year ended 30 June 2014 (2014: 30 June 2013) of 5 cents (2014: 5 cents) per ordinary share	**11,554**	8,293
Interim dividend for the year ended 31 December 2014 (2014: 31 December 2013) of 5 cents (2014: 3 cents) per ordinary share	**11,609**	6,912
	23,163	15,205

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 6 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 11 September 2015, but not recognised as a liability at year-end, is $14,000,000. The dividend will be paid out of the newly created dividend profit reserve.

Franking credits

	2015 $'000	2014 $'000
Franking credits available at the reporting date based on a tax rate of 30%	**15,606**	5,544
Franking debits that will arise from the tax (receivable)/payable at reporting date based on a tax rate of 30%	**(265)**	6,200
Franking credits available for subsequent financial years based on a tax rate of 30%	**15,341**	11,744
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	**(6,000)**	(4,952)
Net franking credits available based on a tax rate of 30%	**9,341**	6,792

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	2015 $'000	2014 $'000
14. Statement of Net Asset Value		
Reconciling Net Asset Value in accordance with Australian Accounting Standards to that reported to the ASX*		
Post-tax Net Asset Value per Statement of Financial Position	**378,575**	353,000
Realisation costs* and accruals	**(905)**	(888)
Deferred income tax asset/(liability) on realisation costs	**270**	266
Net deferred income tax asset in respect of investments and accruals	**–**	22
Net Asset Value – (post-tax)	**377,940**	352,400

The post-tax Net Asset Value at 30 June 2015 was $1.6198 per share (30 June 2014: $1.5251).

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

15. Financial Risk Management

Financial risk management objectives

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

The Investment Manager, Platinum 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.

15. Financial Risk Management Continued

Financial risk management objectives Continued

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

2015	**PHYSICAL $'000**	**LONG DERIVATIVES CONTRACTS $'000**	**SHORT DERIVATIVES CONTRACTS $'000**	**NET EXPOSURE $'000**
Japan	**41,458**	**–**	**–**	**41,458**
Asia ex Japan	**147,969**	**11,056**	**–**	**159,025**
Australia	**1,522**	**–**	**–**	**1,522**
Europe – Euro	**39,426**	**–**	**–**	**39,426**
Europe – Other	**45,220**	**–**	**(359)**	**44,861**
North America	**79,028**	**–**	**(39,255)**	**39,773**
South America	**442**	**–**	**–**	**442**
Africa	**4,728**	**–**	**–**	**4,728**
	359,793	**11,056**	**(39,614)**	**331,235**

2014	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
Japan	44,028	–	–	44,028
Asia ex Japan	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

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15. Financial Risk Management Continued

Financial risk management objectives Continued

The "Physical" column represents the location of the Company's investments. The Investments shown above in the "Physical" column (totalling $359,793,000 for 2015) reconcile to the fair value of equity securities and corporate bonds disclosed in Note 6, being $359,519 for equity securities and $274,000 for corporate bonds.

The largest contributor to the "Asia ex Japan" category at 30 June 2015 were Chinese investments (including Chinese investments listed on the Hong Kong stock exchange), with a fair value ("Physical" value) of $89,919,000 and "net exposure" of $96,962,000.

The "Long/Short Derivative Contracts" columns include the notional value of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Investment Portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in 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.

Market risk

Foreign exchange risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates 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. The Company undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Currency hedging is an integral part of the management of currency risk. Platinum Asset Management may position the Company's Portfolio in what it believes will be a stronger currency(ies). The Company continues to hold little Australian Dollars and Japanese Yen, favouring the US Dollar and various European and Asian currencies.

The Company remains heavily hedged back into US Dollars (77%, including nearly 15% in Hong Kong Dollars), with 11% in European currencies including Norwegian Krone and Swiss Francs. There is little exposure to the Japanese Yen and Australian Dollar.

15. Financial Risk Management Continued

Market risk Continued

Foreign exchange risk Continued

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 that 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).

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 26.

2015	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	41,614	–	(33,515)	8,099
Asia ex Japan	109,221	1,245	(21,769)	88,697
Australia	4,561	–	(2,596)	1,965
Europe – Euro	37,233	–	(22,485)	14,748
Europe – Other	29,908	14,991	(16,611)	28,288
North America	173,421	89,347	(8,607)	254,161
South America	743	–	–	743
Africa	1,225	–	–	1,225
	397,926	105,583	(105,583)	397,926

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

15. Financial Risk Management Continued

Market risk Continued

Foreign exchange risk Continued

2014	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	49,446	–	(44,332)	5,114
Asia ex Japan	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

The largest contributor to the "Asia ex Japan" category at 30 June 2015, were investments denominated in Hong Kong Dollars (including forward currency contracts, cash, equities and derivatives). The relevant "physical" and "net exposure" of investments denominated in Hong Kong Dollars were $57,348,376 which represents 14.41% of the total portfolio and 64.7% of the exposure of the "Asia ex Japan" category.

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. 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 on the following page summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United States Dollar and Hong Kong Dollar (shown in the +10% column) and weakened by 10% against the United States Dollar and Hong Kong Dollar (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.

15. Financial Risk Management Continued

Market risk Continued

Foreign exchange risk sensitivity analysis Continued

	AUD STRENGTHENED		AUD WEAKENED	
2015	**% CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**% CHANGE**	**EFFECT ON PROFIT BEFORE TAX**
United States Dollar	**10%**	**(22,552)**	**(10%)**	**27,564**
Hong Kong Dollar	**10%**	**(5,214)**	**(10%)**	**6,372**
		(27,766)		**33,936**

	AUD STRENGTHENED		AUD WEAKENED	
2014	% CHANGE	EFFECT ON PROFIT BEFORE TAX	% CHANGE	EFFECT ON PROFIT BEFORE TAX
United States Dollar	10%	(16,521)	(10%)	20,193
Hong Kong Dollar	10%	(3,221)	(10%)	3,936
		(19,742)		24,129

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.

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. At 30 June 2015 and 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

15. Financial Risk Management Continued

Market risk Continued

Price risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. Platinum 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 2015, the Company maintained short positions against market indices or company-specific stocks. 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. At 30 June 2015, the Company has a short position in a Biotech Exchange Traded Fund (ETF). The other short positions are principally shorts on the S&P Index.

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 Hong Kong (predominantly through Chinese companies listed on the Hong Kong stock exchange) 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:

2015	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX
Hang Seng	**10%**	**5,350**	**(10%)**	**(5,350)**
S&P Index	**10%**	**10,734**	**(10%)**	**(10,734)**
		16,084		**(16,084)**

15. Financial Risk Management Continued

Market risk Continued

Price risk sensitivity analysis Continued

2014	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX
Hang Seng	10%	3,200	(10%)	(3,200)
S&P Index	10%	9,608	(10%)	(9,608)
		12,808		(12,808)

The above two indices have been used as proxies for the Company's physical exposure in those markets. If all other share market indices that the Company invests moved by +/–10%, then the Company's profit would increase/(decrease) by A$20,193,000 (2014: A$19,928,000). 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.

Credit risk

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

The exposure to credit risk for cash and cash equivalents, futures, equity swaps, and 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:

	2015 $'000	2014 $'000
Ratings		
A+	**29,507**	11,206
A	**12,506**	3,509
A–	**9,747**	6,467
BBB+	**8,161**	–
Total	**59,921**	21,182

NOTES TO THE FINANCIAL STATEMENTS
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15. Financial Risk Management Continued

Credit risk Continued
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. 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.

The Company's ageing analysis of receivables (disclosed in Note 8 and the Statement of Financial Position) at 30 June 2015 is as follows:

	2015 $'000	2014 $'000
0 – 30 days	**183**	292
31 – 60 days	**366**	205
61 – 90 days	**22**	16
90+ days	**316**	87
Total	**887**	600

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

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

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

Remaining contractual maturities
The following tables detail the Company's remaining contractual maturity for its financial and non-financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial and non-financial liabilities based on the earliest date on which the financial and non-financial liabilities are required to be paid.

15. Financial Risk Management Continued

Liquidity risk Continued

Remaining contractual maturities Continued

2015	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 6 MONTHS $'000	TOTAL $'000
Non-financial			
Trade creditors and dividend payable	**881**	–	**881**
Total non-financial	**881**	–	**881**
Financial			
Derivative contractual outflows	**689**	–	**689**
Foreign currency contracts	**719**	–	**719**
Total financial	**1,408**	–	**1,408**

2014	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 6 MONTHS $'000	TOTAL $'000
Non-financial			
Unsettled trades	645	–	645
Trade creditors and dividend payable	857	–	857
Income tax payable	–	6,200	6,200
Total non-financial	1,502	6,200	7,702
Financial			
Derivative contractual outflows	626	–	626
Foreign currency contracts	705	–	705
Total financial	1,331	–	1,331

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

At 30 June 2015, there are no other contractual amounts payable after six months.

The Company has sufficient funds to meet these liabilities as the value of total net assets realisable in one year or less is $398,380,000 (2014: $375,093,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

15. Financial Risk Management Continued

Liquidity risk Continued

Remaining contractual maturities 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.

Fair value of financial instruments

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

Capital risk management

The Company considers its capital to comprise ordinary share capital 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 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.

16. Fair Value Measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the Company to classify its assets and liabilities held at fair value using the following fair value hierarchy model (consistent with the hierarchy model applied to financial assets and liabilities at 30 June 2015):

(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, corporate bonds, long equity swaps and long futures;

(ii) Short equity swaps and short futures; and

(iii) Forward currency contracts.

The following tables detail the Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy model. The Company has no assets or liabilities that are classified as Level 3.

2015	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	**336,386**	**23,133**	–	**359,519**
Corporate bonds	–	**274**	–	**274**
Derivatives	**391**	**1,357**	–	**1,748**
Foreign currency contracts	–	**315**	–	**315**
Total assets	**336,777**	**25,079**	–	**361,856**
Liabilities				
Derivatives	–	**689**	–	**689**
Foreign currency contracts	–	**719**	–	**719**
Total liabilities	–	**1,408**	–	**1,408**

NOTES TO THE FINANCIAL STATEMENTS
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16. Fair Value Measurement Continued

Fair value hierarchy Continued

2014	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	352,883	1,556	–	354,439
Derivatives	176	21	–	197
Foreign currency contracts	–	191	–	191
Total assets	353,059	1,768	–	354,827
Liabilities				
Derivatives	247	379	–	626
Foreign currency contracts	–	705	–	705
Total liabilities	247	1,084	–	1,331

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.

Rationale for classification of assets and liabilities as Level 1
At 30 June 2015, 93% of the equity securities and derivatives held by the Company are valued using unadjusted quoted prices in active markets and are classified as Level 1 in the fair-value hierarchy model.

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

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

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

(iii) certain Over-The-Counter (OTC) derivatives/options may be classified as Level 2 because either:

16. Fair Value Measurement Continued

Rationale for classification of assets and liabilities as Level 2 Continued

I. the derivative or swap contract itself is not listed and therefore there is no directly observable market price; or

II. the price is sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) can be verified directly from Bloomberg or verified using option pricing models; and

(iv) certain index derivatives are classified as Level 2 because the Company may agree with the counterparty to include or exclude one or more securities that make up the "basket" of securities that comprise the index derivative. Hence, the quoted price of the index derivative would be very similar, but not identical to the index derivative that the Company held.

The increase in investments classified as Level 2 at 30 June 2015 was because the Company invested in more Chinese P-Notes, which in turn was associated with the portfolio strategy of moving away from the US and towards Asia.

OTC equity swap contracts are classified as Level 2 (as stated above) because the swap contract itself is not listed and does not have an observable market price. However, the underlying securities that form the basis of each swap contract has a directly observable quoted price in an active market.

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master 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 2015

16. Fair Value Measurement Continued

Offsetting and master netting agreements Continued

The gross and net positions of financial assets and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns of the following tables:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
2015	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENTS(1) $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
Derivatives	**1,748**	**–**	**1,748**	**(689)**	**–**	**1,059**
Forward currency contracts	**336**	**(21)**	**315**	**(315)**	**–**	**–**
2014						
Derivatives	197	–	197	(197)	–	–
Forward currency contracts	223	(32)	191	(191)	–	–
2015						
Financial liabilities						
Derivatives	**689**	**–**	**689**	**(689)**	**–**	**–**
Forward currency contracts	**740**	**(21)**	**719**	**(315)**	**(404)**	**–**
2014						
Derivatives	626	–	626	(197)	(429)	–
Forward currency contracts	737	(32)	705	(191)	(514)	–

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

17. Key Management Personnel Disclosures

Key Management Personnel – Executive Directors

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

(1) they are employees of the Investment Manager, Platinum Asset Management; and

(2) the Executive Directors are members of the Board of the Company and consequently carry out various responsibilities. 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 statement of profit or loss and other comprehensive income and the Remuneration Report.

Interests of Non-Executive and Executive Directors in shares

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

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Bruce Coleman	240,000	-	-	240,000
Richard Morath	32,400	-	-	32,400
Jim Clegg	-	20,000	-	20,000
Kerr Neilson	1,977,647	-	-	1,977,647
Andrew Clifford	1,694,407	-	-	1,694,407

18. Remuneration of Auditors

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

	2015 $	2014 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**110,586**	107,365
Other services – PricewaterhouseCoopers		
Taxation services	**44,954**	51,427
	155,540	158,792

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2015

19. 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 2015, the annual pre-tax performance of the portfolio was 16.82% and the corresponding MSCI was 23.67%.this represents an underperformance of 6.85% against the MSCI. A performance fee has not been accrued in the current or prior year.

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.

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

	2015 $'000	2014 $'000
Management fee	**5,831**	4,883

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;

19. Investment Manager Continued

(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.

20. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2015 and 30 June 2014. The Company has no commitments for uncalled share capital on investments.

21. Related Party Transactions

Management fees

Disclosures relating to management fees paid and payable to the related party, Platinum Asset Management, are set out in Note 19.

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.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

21. Related Party Transactions Continued

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
Disclosures relating to key management personnel are set out in Note 17 and the Remuneration Report in the Directors' Report.

Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

22. Events After the Reporting Period

Apart from the transfer of the 30 June 2015 retained earnings balance to the dividend profit reserve and the dividend declared as disclosed in Notes 12 and 13, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

23. Notes to the Statement of Cash Flows

	2015 $'000	2014 $'000
Components of cash and cash equivalents		
Cash at bank*	**125**	88
Cash on deposit**	**36,951**	20,936
	37,076	21,024

* Cash at bank includes $57,000 (2014: $81,000) held in respect of unclaimed dividends on behalf of shareholders.

** Cash on deposit includes $12,946,000 (2014: $9,730,000) on deposit to "cash cover" derivative contracts' deposits and margin calls.

23. Notes to the Statement of Cash Flows Continued

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 –1.00% to 1.90% (2014: 0.00% to 2.65%).

	2015 $'000	2014 $'000
24. Reconciliation of Profit After Income Tax to Net Cash from/(used in) Operating Activities		
Profit after income tax expense for the year	**44,826**	32,885
Adjustments for:		
Foreign exchange differences	**(4,601)**	715
Decrease/Increase in investment securities and forward currency contracts	**(6,952)**	(122,275)
Change in operating assets and liabilities:		
Decrease/(increase) in deferred tax assets	**77**	(298)
Decrease in prepayments	**81**	7
(Increase)/decrease in settlements receivable	**(19)**	232
Decrease in settlement payable	**(645)**	(278)
(Increase) in interest receivable	**(7)**	–
(Increase) in dividends receivable	**(78)**	(225)
(Increase)/decrease in Capital Gains Tax receivable	**(4)**	8
Increase in trade and other payables	**47**	196
Increase/(decrease) in provision for income tax	**(6,200)**	5,540
Increase in deferred tax liabilities	**4,460**	860
Decrease/(increase) in Goods and Services Tax receivable	**5**	(24)
(Increase) in income tax receivable	**(265)**	–
Net cash from/(used in) operating activities	**30,725**	(82,657)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

24. Reconciliation of Profit After Income Tax to Net Cash from/(used in) Operating Activities Continued

Non-cash financing activities
During the year, 2,254,054 (2014: 1,766,396) 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 $3,911,442 (2014: $2,817,980).

25. The Company

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.

26. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2015 $'000
Japan		
Alpine Electronics	100,200	**2,505**
Asahi Glass	234,500	**1,825**
Daiichi Sankyo	244,162	**5,855**
Denso	58,753	**3,793**
Fujitsu	339,367	**2,460**
Hitachi	256,602	**2,193**
Ibiden	97,436	**2,136**
JSR	87,416	**2,004**
Lixil Group	123,363	**3,175**
Mitsubishi Heavy Industries	293,013	**2,311**
Mitsubishi Tanabe Pharmaceuticals	117,823	**2,290**
Toyota Industries	110,827	**8,193**
Ushio	160,982	**2,718**
Total Japan		**41,458**

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
Asia ex Japan		
China		
Baidu – American Depository Receipt	13,176	**3,404**
China Life Insurance – H shares	993,172	**5,611**
China Mobile – H shares	459,980	**7,642**
China Pacific Insurance – H shares	1,508,172	**9,391**
China Pacific Insurance – Participatory Note	324,422	**2,049**
Chow Tai Fook	1,251,906	**1,752**
Daqin Railway – Participatory Note	1,096,594	**3,226**
EcoGreen International Group	13,107,682	**6,275**
Gree Electric Appliances – long equity swap	183,000	**1,082**
Gree Electric Appliances – Participatory Note	69,000	**923**
Jiangsu Yanghe Brewery – long equity swap	50,400	**(113)**
Jiangsu Yanghe Brewery – Participatory Note	107,797	**1,587**
Kweichow Moutai – long equity swap	24,998	**15**
Kweichow Moutai – Participatory Note	134,311	**7,213**
Lee & Man Paper Manufacturing	90,067	**74**
PICC Property & Casualty – H shares	2,959,695	**8,749**
Ping An Insurance – Participatory Note	172,091	**2,936**
Qingdao Haier – Participatory Note	499,438	**3,170**
Qunar Cayman Islands – American Depository Receipt	33,816	**1,880**
Sina	82,865	**5,759**
SouFun – American Depository Receipt	144,993	**1,582**
Tencent – H shares	284,995	**7,380**
Trina Solar – American Depository Receipt	195,435	**2,952**
Weichai Power – long equity swap	293,000	**(209)**
Weifu High Technology – B shares	219,628	**1,156**
Weifu High Technology – long equity swap	88,756	**(57)**
Youku Tudou – American Depository Receipt	141,076	**4,490**
		89,919

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2015

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
Asia ex Japan Continued		
Hong Kong		
CK Hutchison	177,447	**3,383**
Shangri-La Asia	1,149,714	**2,082**
		5,465
India		
Adani Ports and Special Economic Zone	468,854	**2,943**
Gail India	394,145	**3,151**
ICICI Bank	601,020	**3,774**
Jaiprakash	3,321,586	**755**
Jaypee Infratech	524,555	**161**
National Aluminium	133,495	**109**
NTPC	1,138,261	**3,194**
NTPC – corporate bonds	–	**274**
PTC India	901,128	**1,262**
Power Grid Corp of India	803,486	**2,278**
Reliance Industries	165,989	**3,384**
		21,285
Korea		
KB Financial	146,451	**6,286**
Korea Electric Power	111,386	**5,934**
Samsung Electronics – preference shares	1,920	**2,218**
Samsung Electronics	7,702	**11,360**
Shinhan Financial	22,254	**1,076**
		26,874
Malaysia		
Genting	1,126,134	**3,121**
Genting Warrants – Dec 18	118,561	**43**
		3,164

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
Asia ex Japan Asia Continued		
Vietnam		
Vietnam Dairy Products – long equity swap	597,773	**208**
Vietnam Enterprise	537,600	**1,981**
		2,189
Total Asia ex Japan		**148,896**
Australia		
Newcrest Mining	113,149	**1,473**
Vantage Goldfields	1,000,000	**49**
Total Australia		**1,522**
Europe – Euro		
France		
Casino Guichard Perrachon	55,177	**5,420**
Kering	20,450	**4,735**
Sanofi	47,678	**6,082**
		16,237
Germany		
Hornbach Baumarkt	69,109	**3,297**
Hornbach Holding	8,721	**933**
Qiagen	122,097	**3,890**
Qiagen – American Depository Receipt	68,186	**2,193**
		10,313
Italy		
Intesa Sanpaolo	1,843,000	**8,665**
Mediobanca	331,191	**4,211**
		12,876
Total Europe – Euro		**39,426**

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2015

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
Europe – Other		
Norway		
Schibsted – A share	25,400	**1,023**
Schibsted – B share	25,400	**995**
		2,018
Sweden		
Ericsson	549,876	**7,395**
		7,395
Switzerland		
Meyer Burger Technology	100,724	**1,123**
Novartis	45,483	**5,813**
		6,936
Russia		
QIWI – American Depository Receipt	70,626	**2,571**
Sberbank of Russia – American Depository Receipt	149,298	**1,011**
		3,582
United Kingdom		
Amec	138,825	**2,314**
AstraZeneca	91,241	**7,475**
Carnival	204,981	**13,136**
Gemfields	1,940,780	**2,364**
Weir Group – short equity swap	(10,375)	**51**
		25,340
Total Europe – Other		**45,271**

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
North America		
Canada		
Banro	265,637	**110**
Canadian Oil Sands	306,814	**3,218**
Great Basin Gold	192,636	**–**
Suncor Energy	54,000	**1,928**
		5,256
United States		
Allegheny Technologies	141,195	**5,533**
Amec Foster Wheeler – American Depository Receipt	132,907	**2,228**
Capstone Turbine	97,472	**52**
Ciena	126,677	**3,892**
Cisco Systems	202,955	**7,231**
Corning	140,169	**3,588**
eBay	78,800	**6,159**
Google	5,900	**4,134**
Google – C Class	10,746	**7,258**
Intel	244,932	**9,666**
KBR	291,248	**7,362**
Markit	29,548	**980**
Nielsen	74,226	**4,312**
Qlik Technologies	111,914	**5,077**
Russell 2000 Mini Index Sep 2015 – index future	(78)	**100**
S&P 500 Mini Sep 2015 – index future	(148)	**291**
Smurfit Stone	225,000	**–**
SPDR S&P Biotech – short equity swap	(21,000)	**(310)**
Stillwater Mining	145,097	**2,182**
Verastem	279,047	**2,730**
Zillow	12,333	**1,388**
		73,853
Total North America		**79,109**

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2015

	QUANTITY	2015 $'000
26. Investment Portfolio Continued		
South America		
Brazil		
PDG Realty	1,399,085	**211**
PDG Realty Common Receipt	1,201,475	**186**
PDG Realty Warrant	480,590	**6**
		403
Peru		
Bayer Peru – Trabajo	60,241	**–**
Peru Holding De Turismo – Trabajo	1,667,523	**39**
		39
Total South America		**442**
Africa		
Zimbabwe		
Dawn Properties	1,806,672	**35**
Econet Wireless	3,033,910	**1,574**
Innscor Africa	1,545,692	**1,203**
Masimba	6,879,563	**71**
Padenga	1,297,989	**179**
Pearl Properties	7,421,412	**270**
Proplastics	6,191,607	**161**
Riozim	48,989	**9**
		3,502
Nigeria		
Union Bank of Nigeria	19,198,940	**1,226**
		1,226
Total Africa		**4,728**
Total equities, corporate bonds and derivatives (Note 6 and Note 7)*		**360,852**

* From Note 6, the total of equity securities was $359,519,000, the total of corporate bonds was $274,000 and the total of derivatives was $1,748,000 less from Note 7, the total of derivatives of $689,000. This results in a total of $360,852,000.

26. Investment Portfolio Continued

	QUANTITY	2015 $'000
Total equities, corporate bonds and derivatives (from previous page)		**360,852**
Add		
Proceeds from sale of financial assets (Note 8)		**19**
Dividends receivable (Note 8)		**508**
Cash on deposit (Note 23)		**36,951**
Foreign currency contracts (Note 6 and Note 7)		**(404)**
Total Investment Portfolio (reconciles to Note 15 at page 45)		**397,926**

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

Number of transactions – 1,836

Total brokerage paid – $1,087,090
($363,281 on purchases and $723,809 on sales)

DIRECTORS' DECLARATION

In the Directors' opinion:

– the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

– the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;

– the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and

– there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Bruce Coleman
Director

Kerr Neilson
Director

Sydney, 13 August 2015

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

pwc

Report on the Financial Report

We have audited the accompanying financial report of Platinum Capital Limited (the Company), which comprises the Statement of Financial Position as at 30 June 2015, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity and the 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
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DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

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 2015 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 22 of the Directors' Report for the year ended 30 June 2015. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Platinum Capital Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney, 13 August 2015

SUGAR ADDICTION

BREAKING THE CYCLE

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

WRITTEN BY:
Constance Zhang, *Platinum*

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

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

PREFACE

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

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

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

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

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

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

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

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

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

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

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

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

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

KERR NEILSON

Managing Director
August 2015

WHO WANTS TO PLAY CANDY CRUSH?

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

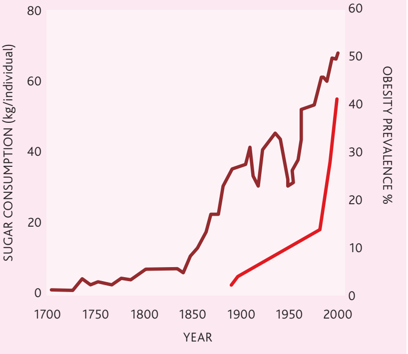
The average Englishman in 1700 consumed just 1.4 kg of the precious spice. By 1800 it had risen to 10 kg[1] and by 1900 annual consumption of sugar was as much as 45 kg per head.[2]

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

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

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

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



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

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

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

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

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

WHERE DOES SUGAR COME FROM?

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

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

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

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

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

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

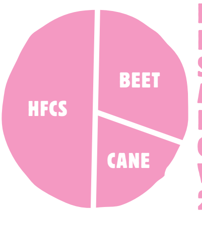
Industrial processes to extract sugar from beets were developed and by 1880 beet had replaced cane as the main source of sugar on the European Continent.

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

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

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

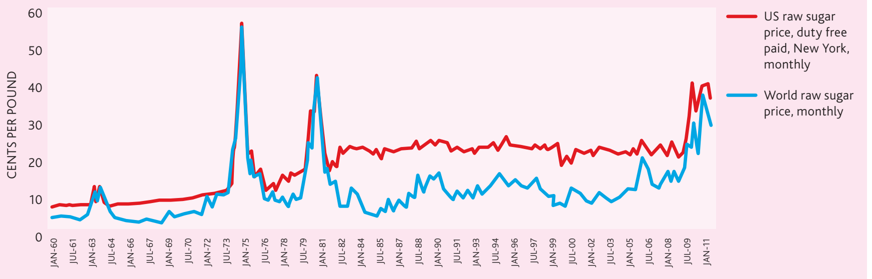
In the US, beets account for around 55% of the total sugar produced while canes account for 45%.



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

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

WORLD VS. US SUGAR PRICES (1960 – 2011)



Source: USDA; SugarCane.org.

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

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

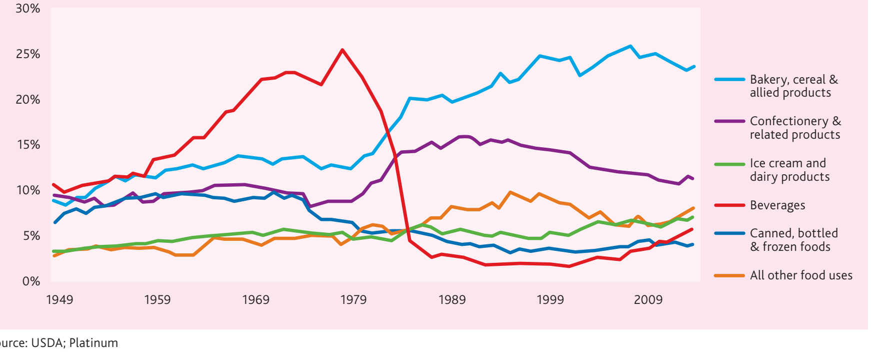
When sugar prices sky-rocketed in the mid-1970s, food and drink manufacturers looked for an alternative, more affordable sweetener, preferably one that was produced locally in the US.

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

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

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

US SUGAR DELIVERIES FOR HUMAN CONSUMPTION BY TYPE OF USER



Source: USDA; Platinum

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

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

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

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

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

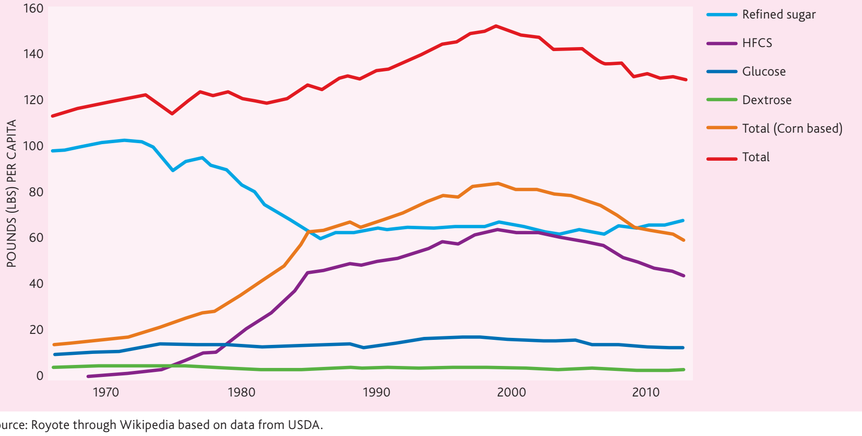
Companies such as Archer Daniels Midland Company, Cargill Inc and Staley (now owned by Tate & Lyle), which enjoyed a golden age in the 70s-90s through innovating with corn sweeteners, are now facing reduced demand as negative publicity around HFCS and soft drinks led the beverages industry to react to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

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

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

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

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



Source: Royote through Wikipedia based on data from USDA.

HOW CAN SUGAR BE BAD FOR US?

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

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

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

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

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

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

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

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

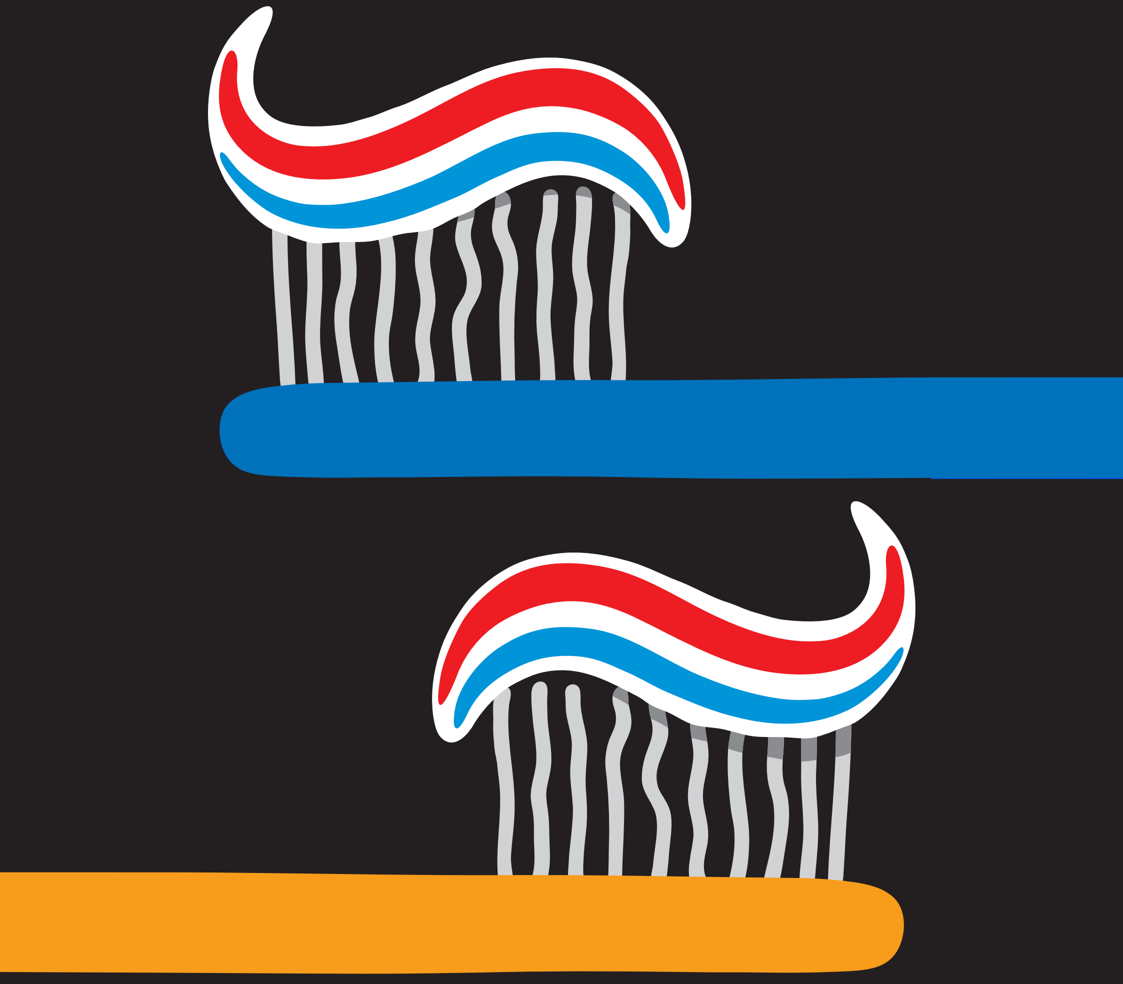
That there is a positive association between the level of free sugars intake and dental caries has been widely accepted.

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

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

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

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



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

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

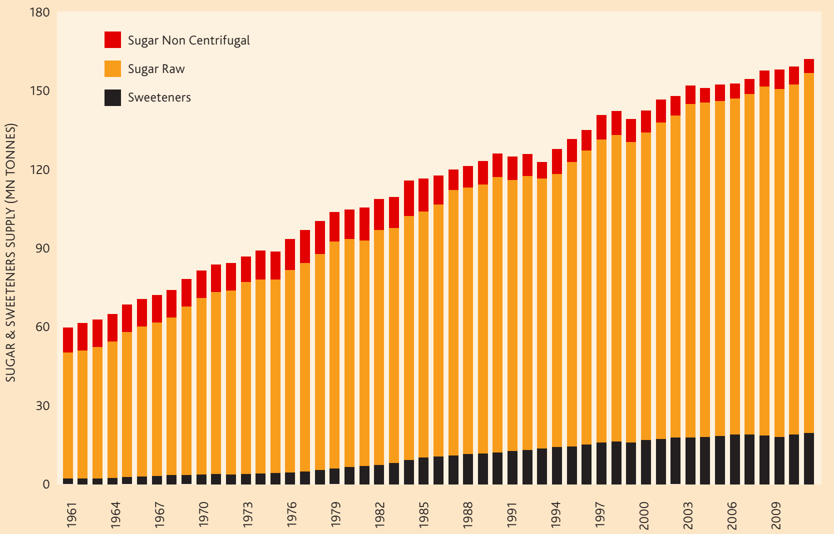
When blood sugar level rises, the pancreas releases insulin which causes the liver to convert excess glucose into glycogen which is then stored in the liver and muscles.

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

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

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

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



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

Source: FAO; Morgan Stanley Research.

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

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

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

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

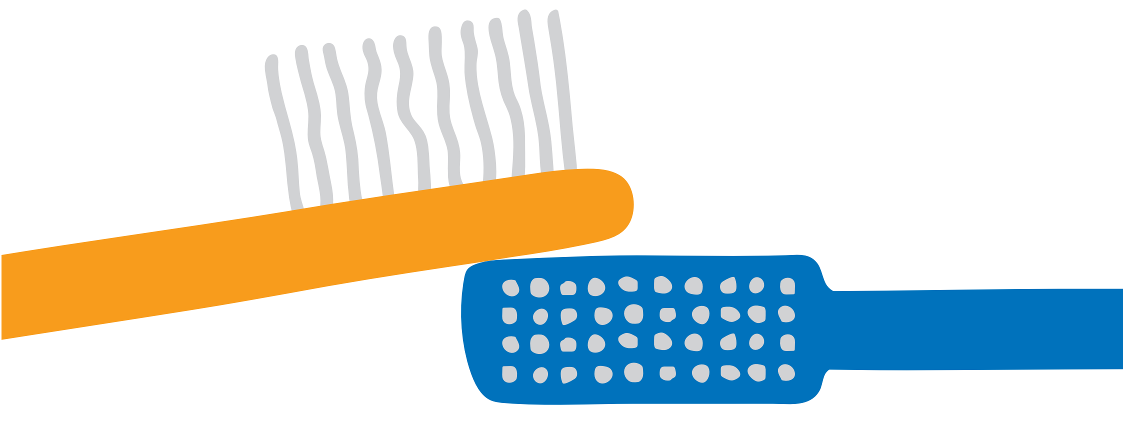
AN OBESE PERSON HAS A 9 TIMES GREATER RISK OF DEVELOPING TYPE 2 DIABETES, MORE THAN 3 TIMES THE RISK FOR HYPERTENSION, 3 TIMES THE RISK FOR COLON CANCER, MORE THAN TWICE THE RISK OF HAVING A HEART ATTACK, A 65% HIGHER RISK OF OSTEOARTHRITIS AND A 33% HIGHER RISK OF A STROKE.[22]

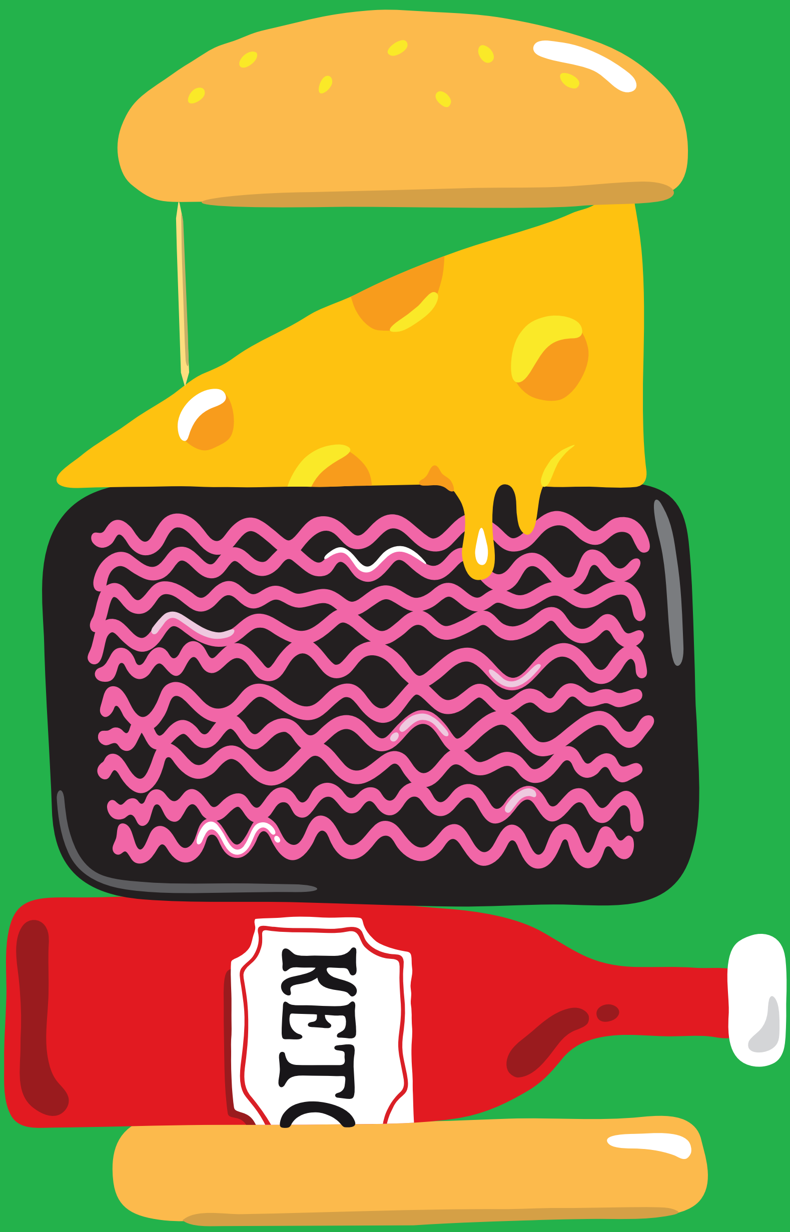
Type 2 diabetes is a condition where blood glucose level becomes too high because the body cannot use insulin to regulate it.

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

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

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

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HOW MUCH IS TOO MUCH?

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

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

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

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

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

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

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

Source: Platinum

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

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

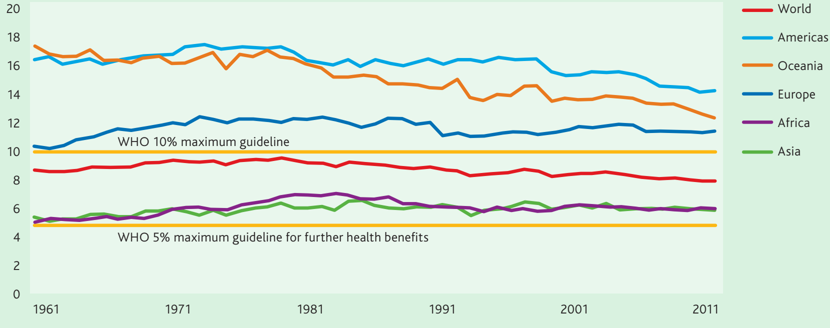
iii: Based on an average adult diet of 8700 kJ or 2078 cal.

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

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

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

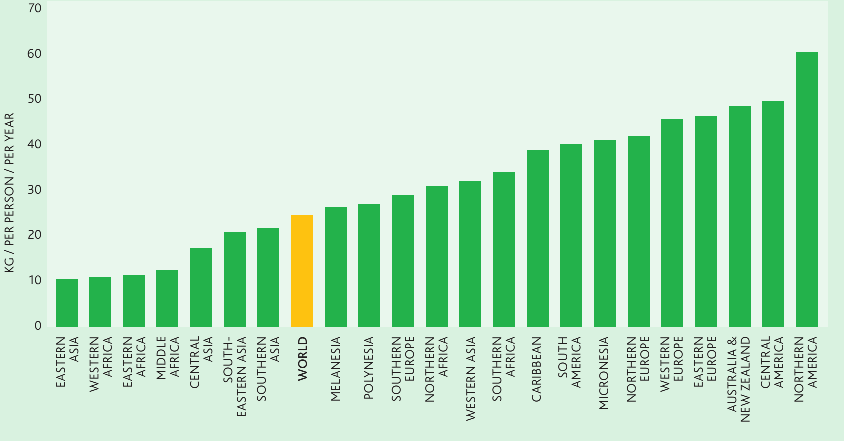
SUGARS AND SWEETENERS AS PERCENTAGE OF TOTAL CALORIE INTAKE – ALL REGIONS EXCEED NEW WHO GUIDELINES



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

Source: FAO; WHO; Morgan Stanley Research.

SUGARS AND SWEETENERS PER CAPITA CONSUMPTION BY REGION



Source: FAO; Morgan Stanley Research.

PUBLIC POLICY RESPONSE IN THE FACE OF GROWING ECONOMIC COSTS

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

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

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

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

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

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

- **EDUCATION CAMPAIGNS**

  These have been the most popular and least controversial.

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

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

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

- **FOOD LABELLING REGULATIONS**

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

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

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

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

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

- **RESTRICTIONS ON ADVERTISING**

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

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

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

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

- **REGULATIONS ON RETAILING**

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

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

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

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

- **TAXES**

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

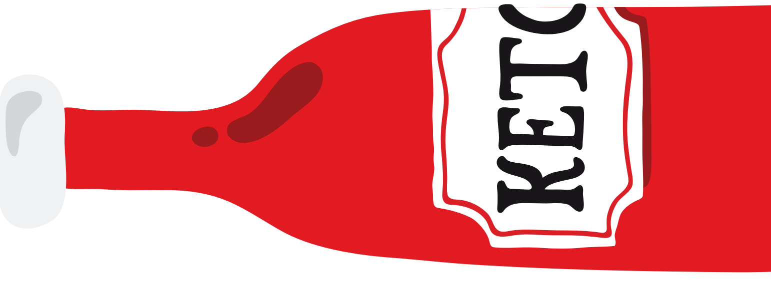
Mexicans consume the highest average quantity of sweetened soft drinks in the world. At 163 litres a year, the average Mexican drinks 40% more than the average American.

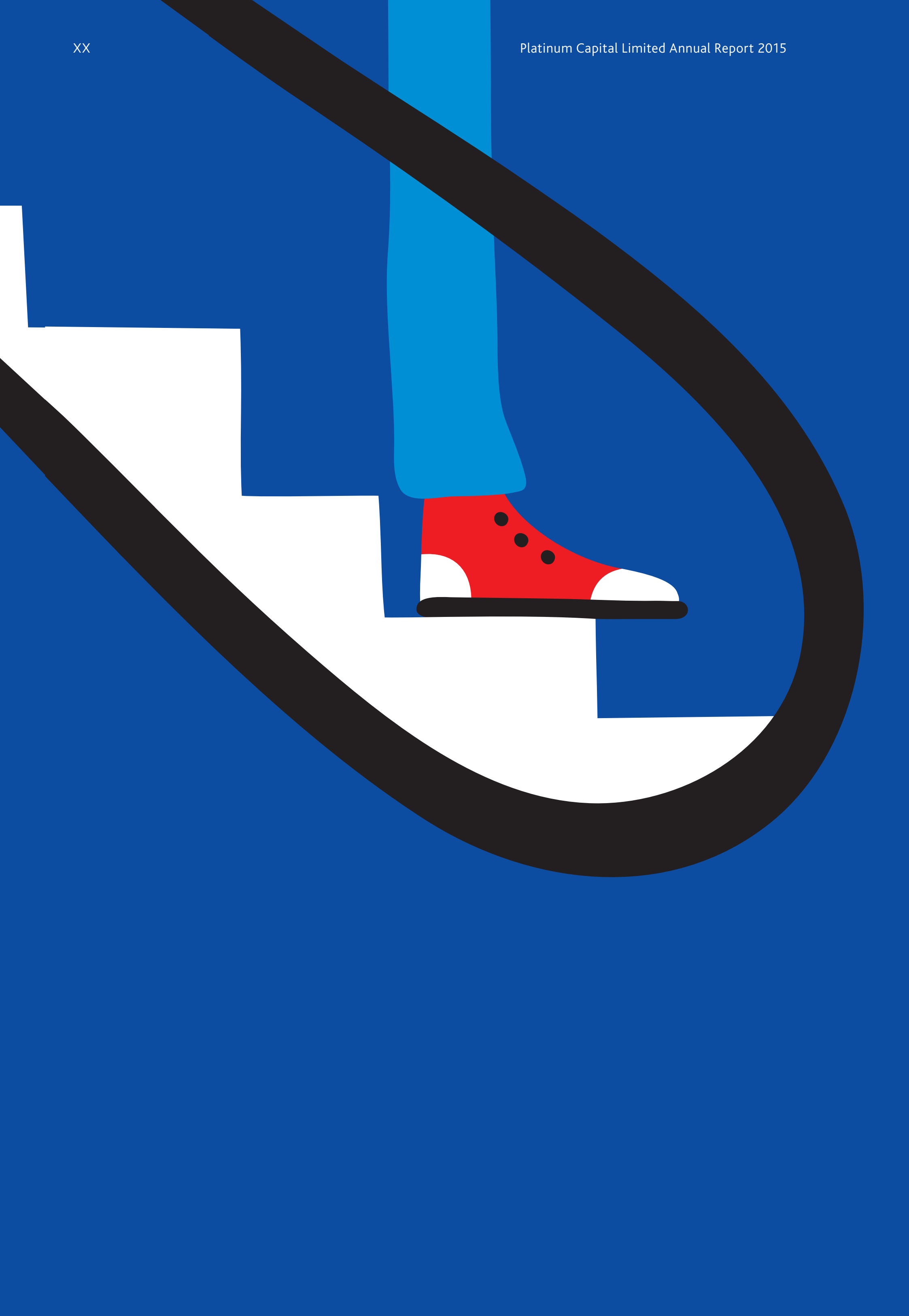
It is no surprise that Mexico also has one of the world's highest obesity prevalence (71% of Mexican adults are overweight and 32% are obese).[31]

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

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

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



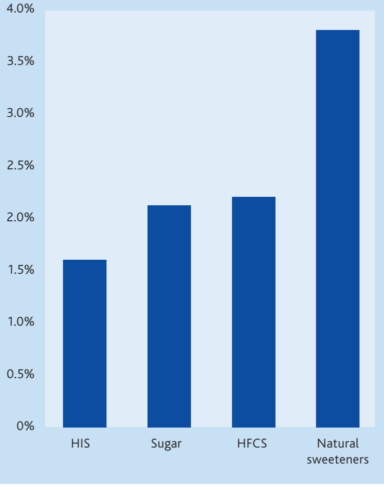


PRIVATE SECTOR INNOVATION AND LOW CALORIE SUGAR SUBSTITUTES

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

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

SWEETENER GROWTH RATES (ISO ESTIMATES) 2005-11

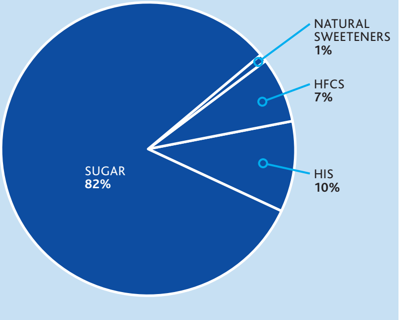


Source: ISO; Credit Suisse AG Research Institute.

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

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

GLOBAL SWEETENER MARKET (ISO ESTIMATES BY VOLUME) 2011



Source: ISO; Credit Suisse AG Research Institute.

ARTIFICIAL LOW-CALORIE SUGAR SUBSTITUTES

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

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

* Sugar and HFCS also have 4 calories per gram, but the high intensity of sweetness of Aspartame means reduced quantity in sweetened products, and hence less calories.
^ Sucralose itself has no calories, but the bulking agent gives the end product 3 calories per gram.
Source: Sugar-and-Sweetener-Guide; Choice; Healthier Workplace WA; CCMI International; Bank of America Merrill Lynch; Platinum.

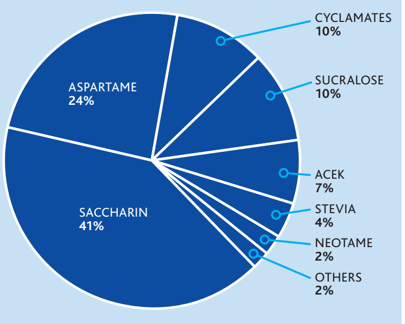
While taste, mouth feel, functions as a preservative and bulking agent are all important considerations for the HIS business, safety issues, whether real or perceived, have been the key factor affecting the success of the industry. Most of the artificial HIS mentioned above have had a chequered history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

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

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

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

HIS MARKET SHARE BY VOLUME (WHITE SUGAR EQUIVALENT)



Source: ISO; Credit Suisse AG Research Institute.

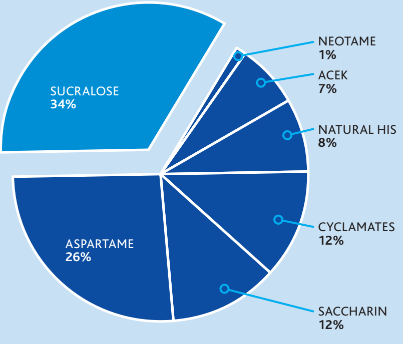
GLOBAL HIS MARKET BY END USE

Source: LMC; Cosan Ltd.

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

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

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



Source: ISO; Credit Suisse AG Research Institute.

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

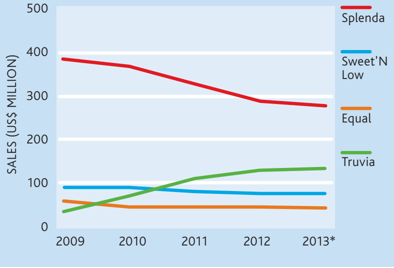
Tate & Lyle no longer has a monopoly on Sucralose following a loss in patent suits against several Chinese manufacturers and US distributors in 2009, but the Splenda brand still dominates supply with an 80% Sucralose market share.

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

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

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

HIS SALES TREND



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

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

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

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

NATURAL LOW-CALORIE SUGAR SUBSTITUTES

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

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

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

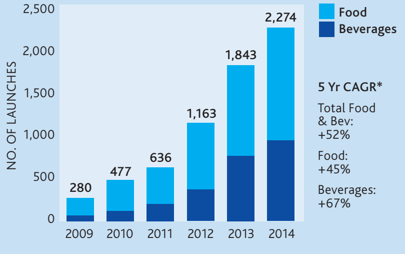
Not only does stevia contain zero calorie and zero glycaemic, it has also been reported to have a beneficial effect on regulating blood sugar levels and is therefore well-suited to diabetes sufferers.

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

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

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

GLOBAL FOOD & BEVERAGE LAUNCHES WITH STEVIA



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

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

TOP 10 CATEGORIES: NUMBER OF GLOBAL STEVIA LAUNCHES 2014

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

Source: Mintel; PureCircle.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BEYOND SUGAR, COKE AND STEVIA

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

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

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

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

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

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

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

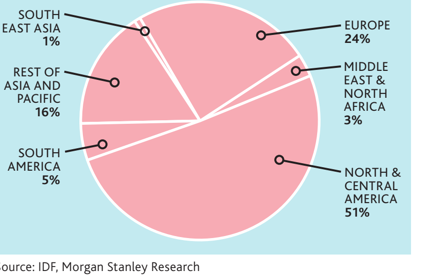
One of the reasons that diabetes is such a serious and costly condition is its numerous complications. Persistent high blood glucose levels can cause irreversible damage to the body's organs and diabetes is the most common cause of kidney failure (more than 40%).

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

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

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

REGIONAL SHARES OF DIABETES-RELATED HEALTH EXPENDITURES, 2014



Source: IDF, Morgan Stanley Research

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX
HOW MUCH WILL DIABESITY COST OUR ECONOMY?

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

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

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

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

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

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

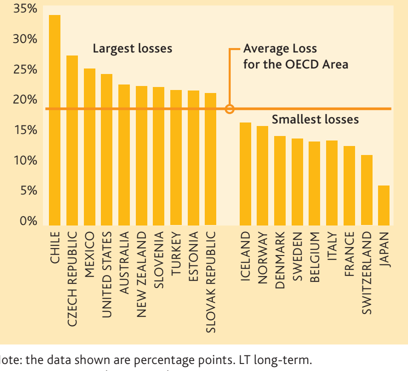
i: "Presenteeism" refers to employees who go to work even though they are sick.
ii: Those who leave the labour market because they are too ill to work.

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

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

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

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

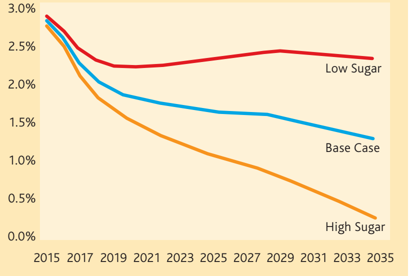


Note: the data shown are percentage points. LT long-term.
Source: Morgan Stanley Research estimates.

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

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

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



Source: OECD; Morgan Stanley Research estimates.

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

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

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

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