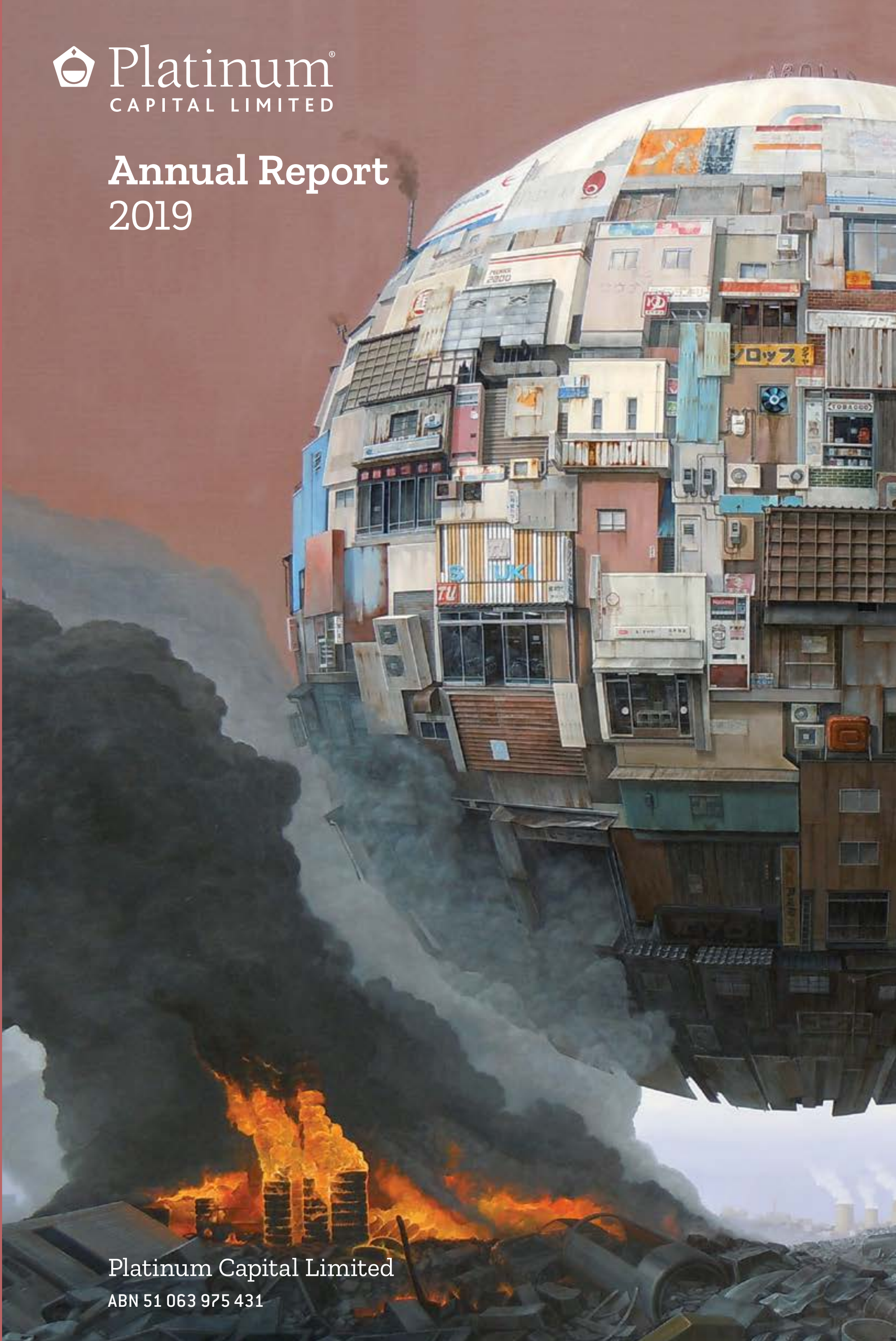
Platinum® CAPITAL LIMITED

Annual Report 2019



Platinum Capital Limited

ABN 51 063 975 431

Directors

Margaret Towers
Richard Morath
Jim Clegg

Company secretary

Joanne Jefferies

Investment manager

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

Platinum Investment Management Limited neither guarantees the repayment of capital nor the investment performance of the Company

Shareholder liaison

Elizabeth Norman

Registered office

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Sydney NSW 2000

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Share registrar

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Phone +61 1300 554 474
Fax +61 2 9287 0303

Auditor and taxation advisor

PricewaterhouseCoopers

Securities exchange listing

Platinum Capital Limited shares are listed on the Australian Securities Exchange (ASX code: **PMC**)

Website

www.platinumcapital.com.au

Corporate Governance Statement

https://www.platinum.com.au/PlatinumSite/media/Find-a-form/pmc_corp_gov.pdf

Contents

Chairperson's Report 2019

Summary

Platinum Capital Limited's ("**PMC**" or the "**Company**") overall investment return for the 2019 financial year was 0.01%. However, this headline return occurred against a backdrop of significant volatility across global markets. The re-emergence of trade tensions in May 2019 stalled the momentum that had been building in the preceding months.

The 2019 financial year can be broken into three distinct investment performance periods.

- **The five month period from 1 July 2018 to 30 November 2018**, in which the Company's portfolio delivered an investment performance return of negative 8.6%[1]. The Chinese share market was adversely impacted by evidence of an economic slowdown in China, partly as a result of the tightening of available credit. This was exacerbated by the strong US dollar and rising interest rates and the ongoing issue of US-China trade tensions. This impacted on the performance of the Company's Asian ex-Japan, European and Japanese stocks. The MSCI All Country World Net Index in A$ terms ("Index")[2] on the other hand benefited from the performance of a narrow group of stocks, particularly in the US, with high starting valuations (mainly technology, healthcare and consumer stocks).
- **The five month period from 1 December 2018 to 30 April 2019**, in which the Company's portfolio delivered a positive investment performance return of 12.5%[1]. The portfolio's long holdings were performing well and economic indicators in China had improved, however there was still underlying uncertainty because of the global trade tensions.
- **The two month period from 1 May 2019 to 30 June 2019**, in which global trade tensions again reignited causing the Company's portfolio to lose 2.6%[1] in the last two months of the financial year. The investment manager, Platinum Investment Management Limited ("Platinum" or the "Investment Manager") took action to protect the portfolio mainly by raising cash levels and shorting stocks and index futures. At 30 June 2019, the net invested position of the portfolio was 64%.

The Company remains heavily exposed to many stocks in the Asian region, which Platinum believes have good long-term prospects especially having regard to their attractive valuations.

The volatility experienced in the 2019 financial year resulted in an operating loss after tax of $0.4 million for the Company.

1. The summation of the returns for these periods does not equal the 0.01% return for the 12 months to 30 June 2019, because the returns for each of these periods were calculated from the start date of each period, rather than from 1 July 2018.
2. MSCI Inc Disclaimer: Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Annual Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without the express written consent of MSCI Inc.

The Company declared a fully-franked 2019 final dividend of 4 cents per share, bringing the total dividends declared for the 2019 financial year to 7 cents per share. This excludes the special dividend that was paid in March 2019 of 3 cents per share. The dividend yield for the year, excluding the special dividend paid, was 4.5% based on the 30 June 2019 closing share price of $1.57.

The Company was not affected by the small company tax changes and will be able to distribute franking credits for the 2019 financial year at a tax rate of 30%.

Investment Performance

As mentioned, for the 12 month period to 30 June 2019, the Company delivered a return of 0.01% (measured by its pre-tax net tangible assets ("NTA") i.e. the combined capital and income return of the Company's investments after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends). This is compared to the MSCI All Country World Net Index in A$ terms ("Index"), which delivered a return of 11.3% for the same period.

The Investment Manager acknowledges that the Company has experienced its weakest relative performance over a 12 month period since 1999, however the Investment Manager has also observed *"the long-term trend of growth stocks outperforming value stocks, which has resulted in the disparity of valuations between these groups of stocks widening to extreme levels. The last time the relative performance of growth over value was at current levels, was in 1999-2000 at the height of the tech bubble."*

For the five years to 30 June 2019, the Company delivered an annualised compound return of 8.6% per annum, measured by the Company's pre-tax NTA, versus the Index return of 12.6%. Despite a challenging 12 months, the five year absolute return remained in excess of 8% per annum compound and has been achieved with a fair degree of built-in protection along the way. The Company's long-term (since inception) return of 12.0% per annum was approximately 67% greater than the Index return of 7.2% over the last 25 years.

I note that over all rolling five-year periods, commencing each month since inception in 1994 to 30 June 2019, the Company achieved positive returns 96% of the time. In contrast, the Index achieved positive returns 63% of the time. For all rolling monthly five-year periods since inception to 30 June 2019, the Company exceeded an annualised compound return of 8% per annum 74% of the time, versus 44% of the time for the Index and this can be seen in the table on the following page.

Chairperson's Report 2019 - continued

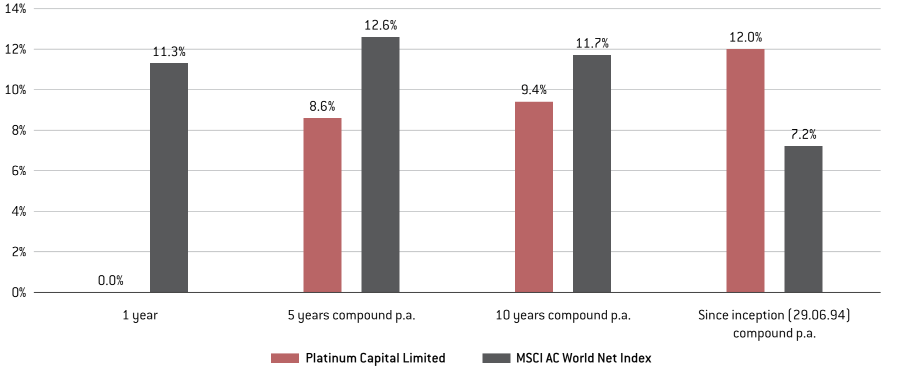
5 year compound per annum pre-tax NTA returns since inception

	PMC	Index
Total number of 5 year periods to 30 June 2019	241	241
Periods where return was positive (% of total)	96%	63%
Periods where return was negative (% of total)	4%	37%
Largest 5 year gain (% compound per annum)	27%	23%
Largest 5 year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	74%	44%
Periods where PMC return was > Index (% of total)	71%	NA

The Investment Manager has recently commented that *"The US market is up over 300% in ten years, the rest of the world only one-third of that. That makes a huge difference when comparing the Company against the benchmark... However, trying to generate capital growth from investing in undervalued companies requires us to avoid the crowd and to explore change."*

A summary of the Company's returns as compared to the Index over the 1 year, 5 year and 10 year periods and since inception is shown in the graph below.

PMC's Pre-Tax Net Tangible Asset (NTA) Return (%) versus MSCI AC World Net Index in $A terms to 30 June 2019 (%)



Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

Statutory accounts

For the financial year ended 30 June 2019, the Company made a statutory pre-tax operating loss of $20,000 and a post-tax operating loss of $0.4 million.

Under Australian Accounting Standards, realised profits and losses are added to, or reduced by unrealised changes in the market value of the Company's total assets. This can lead to large variations in recorded statutory profits or losses from any one year to the next.

The Board maintains that a more appropriate measure of the Company's performance is the percentage change in its pre-tax NTA (i.e. after the deduction of fees and expenses) adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends. On this measure, the Company has achieved a return of 0.01% for the 12 months to 30 June 2019.

To keep shareholders fully informed, PMC releases weekly and monthly calculations of its NTA backing per share to the ASX. Platinum publishes monthly investment performance updates and also sends out quarterly investment reports to shareholders.

Dividends

The Company declared a fully-franked 2019 final dividend of 4 cents per share, bringing the total dividends declared for the 2019 financial year to 7 cents per share. This excludes the special dividend that was paid in March 2019 of 3 cents per share. The dividend yield for the year, excluding the special dividend paid, was 4.5% based on the 30 June 2019 closing share price.

The Board aims to deliver a consistent stream of fully-franked dividends to shareholders over time, whilst maintaining its policy of dividend smoothing, subject to future earnings, cash flows, franking credits and accounting profits. The ability to pay future fully-franked dividends will continue to depend on the Company's ability to generate realised profits and pay tax, and will also be influenced by government policy in this area.

To the extent that any profits are not distributed as dividends, the Board may set aside some or all of the Company's undistributed profits to a separate dividend profit reserve, to facilitate the payment of future fully-franked dividends, subject to the balance of the franking account.

After the payment of the 2019 final dividend, the dividend profit reserve will have a balance of 21.98 cents per share, based on the current number of shares on issue.

The Company's Dividend Reinvestment Plan (DRP) provides shareholders with the option to receive some or all of their future dividends as ordinary shares in the Company instead of cash. The DRP will be operating at a 2.5% discount for the 2019 final dividend (i.e. the issue price for the new PMC shares allotted under the DRP will be at a 2.5% discount to the relevant market price, being the volume-weighted average price of the Company's shares traded on the ASX over the five business days subsequent to the date on which the Company shares cease to trade cum-dividend).

Chairperson's Report 2019 - continued

I can confirm that for the year ended 30 June 2019, despite reporting an accounting loss, PMC was not affected by any changes in the small company tax rate and PMC will be able to distribute franking credits at a tax rate of 30%. This is due to the fact that PMC's turnover for tax purposes (realised gains excluding realised losses) for the financial year exceeded the statutory threshold of $50 million.

Capital Management

The Company did not engage in any capital raising activities during the financial year. However, I take this opportunity to re-state the Board's capital management policy below.

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans or placements; and/or
- the use of share buy-backs.

We note that currently the Company's share price is trading at close to its pre-tax NTA backing per share.

Other Corporate Governance Matters

The Company's investments are managed and administered by Platinum through two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Agreement.

During the financial year ending 30 June 2019, the Board continued to monitor the performance of Platinum and its adherence to the agreements with the full and transparent co-operation of Platinum and its management team. Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

Outlook for 2019-2020

As highlighted recently by the Investment Manager, *"... what appears to be a cautiously positioned portfolio masks enthusiasm for the medium-term prospects for what we own, and concern about both market-level risks and extreme valuations. One might say we are taking a divergent view on a divergent market."*

"The long positions in the Company's portfolio were trading on an average price-to-earnings (P/E) multiple of 10.7x and a price-to-book (P/B) multiple of 1.3x. These valuations of the long positions in PMC's portfolio compare favourably with market averages and our quantitative indicators lead us to believe that our portfolio is both more profitable and faster growing than our global universe of stocks. Further, our qualitative assessment is that the valuations of our individual holdings are not just attractive relative to the averages, but attractive on an absolute basis.

It is these factors, which we judge our assessment of likely future returns, and result in us being optimistic about the Company's returns over the medium to long-term. However, significant risks remain in the macroeconomic and market environment in the short-term; in particular, US trade policy and the impact on global growth. Valuations in the crowded sectors of equity markets: the safe havens and the high growth stocks are also cause for caution on broader markets."

Annual General Meeting (AGM)

My fellow Directors and the Investment Manager look forward to meeting with shareholders at the Annual General Meeting on 14 November 2019. The AGM Notice will be dispatched to shareholders in the coming weeks.

Finally

On behalf of the Board, I wish to express our appreciation of the work done by Andrew Clifford and the broader team at Platinum.

Finally, on behalf of the Board, I thank shareholders for their support.

Margaret Towers
Chairperson

15 August 2019

Financial Information Summary

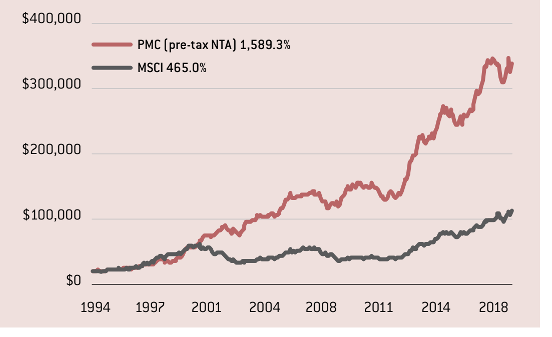
30 June 2019

+0.01% 12 month performance[i] (based on pre-tax NTA)	4cps Final fully-franked dividend	4.5% Dividend yield[ii]

Inception Date	29 June 1994
Market capitalisation	$453.05m
Share price	$1.57
Shares on issue	288,569,783
Net Tangible Assets (pre-tax) per share	$1.57
Net Tangible Assets (post-tax) per share	$1.53
Net assets	$441.05m
Dividend profit reserve[iii]	21.98cps
Fully-franked dividend capacity[iv]	4.73cps

The Company's (PMC) pre-tax Net Tangible Assets (NTA) compound return since inception to 30 June 2019 was 12.0% per annum[i].

Cumulative performance since inception to 30 June 2019 on a pre-tax NTA measure is provided in the graph below.



5 year compound per annum pre-tax NTA returns since inception[i]

	PMC	Index
Total number of 5 year periods to 30 June 2019[v]	241	241
Periods where return was positive (% of total)	96%	63%
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Largest 5 year gain (% compound per annum)	27%	23%
Largest 5 year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	74%	44%
Periods where PMC return was > MSCI (% of total)	71%	NA

i The pre-tax NTA return is calculated after the deduction of fees and expenses, adjusted for corporate taxes paid, and any capital flows and assuming the reinvestment of dividends.

ii Dividend yield is based on the 2019 interim dividend of 3 cents per share plus the 2019 final dividend of 4 cents per share and the share price as at 30 June 2019.

iii Dividend profit reserve is after providing for the 2019 final dividend of 4 cents per share.

iv This is the maximum fully-franked dividend that can be paid based on the franking credit balance as at 15 August 2019 after providing for the 2019 tax payable and the 2019 final dividend of 4 cents per share.

v Commencing each month since inception to 30 June 2019.

Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

Financial Statements 2019

Platinum Capital Limited

General Information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 15 August 2019. The Directors have the power to amend and reissue the financial statements.

Shareholder Information

The shareholder information set out below was applicable as at 12 August 2019.

Distribution of equity securities

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	1,164
1,001 to 5,000	2,467
5,001 to 10,000	2,505
10,001 to 100,000	5,848
100,001 and over	324
	12,308
Holding less than a marketable parcel (of $500)	641

Substantial holders

Twenty largest shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES NUMBER HELD	% OF TOTAL SHARES ISSUED
Sysha Pty Limited	14,000,000	4.85
Australian Executor Trustees Limited	5,958,487	2.06
Lekk Pty Limited	4,000,000	1.39
HSBC Custody Nominees (Australia) Limited	2,665,748	0.92
Nulis Nominees (Australia) Limited	2,281,329	0.79
Mr William Kerr Neilson	1,977,646	0.69
Jorlyn Pty Limited	1,900,000	0.66
Moya Pty Limited	1,694,406	0.59
Netwealth Investments Limited	1,464,288	0.51
Australian Executor Trustees Limited	1,406,661	0.49
BNP Paribas Nominees Pty Limited	1,257,370	0.44
Netwealth Investments Limited	942,007	0.33
Citicorp Nominees Pty Limited	793,841	0.28
Mr Raymond Ireson	779,442	0.27
Navigator Australia Limited	718,856	0.25
HSBC Custody Nominees	676,631	0.23
Howmains Pty Limited	577,972	0.20
Donald Cant Pty Limited	530,913	0.18
Eramu Pty Limited	502,700	0.17
Mr Robert John Webb	500,000	0.17
	44,628,297	15.47

There are no substantial holders in the Company.

Shareholder Information - continued

Voting rights

Ordinary shares

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

Distribution of Annual Report to Shareholders

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

Financial Calendar

Ordinary shares trade ex-dividend	26 August 2019
Record (books close) date for dividend	27 August 2019
Dividend paid	13 September 2019

These dates are indicative and are subject to change.

Notice of Annual General Meeting (AGM)

The details of the Annual General Meeting of Platinum Capital Limited are:

10am Thursday 14 November 2019
Museum of Sydney
Corner of Phillip & Bridge Streets
Sydney NSW 2000

Questions for the AGM

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

Investment Structure, Objectives and Methodology

Investment Structure

Platinum Capital Limited (the "Company" or "PMC") is a listed investment company, or LIC, whose shares are listed on the Australian Securities Exchange ("ASX") and traded in the same way as other listed shares. Being a LIC, the Company:

– is closed-ended which means that the underlying portfolio can be managed without concern for fluctuating cashflows;

– is taxed at source and can therefore distribute available profits to shareholders in the form of dividends, usually fully – franked (depending on the availability of franking credits); and

– has established a dividend profit reserve which provides the possibility for the smoothing of dividends from year to year, at the discretion of the Board.

Shares in the Company can trade at a premium or discount to their net tangible asset ("NTA") backing per share, which is calculated and announced to the ASX weekly and monthly.

The Company delegates its investment management and administration functions to Platinum Investment Management Limited (trading as Platinum Asset Management) (the "Investment Manager"), which employs a team of experienced investment professionals and administration personnel to perform those services. The Company and the Investment Manager are separate legal entities.

Investment Objective

The investment objective of the Company is to provide capital growth over the long-term through investing in companies and businesses worldwide which it perceives to be undervalued by the market.

Investment Methodology

The Investment Manager's index-agnostic investment approach has been well tested over many years. The principles on which it is based have not varied since the Company's inception, although the investment process has evolved and been refined over time.

The Investment Manager seeks to invest globally in companies whose businesses and growth prospects are, in its view, inappropriately valued by the market. Just as optimism and pessimism ebb and flow in stock markets, similar sentiments also affect individual companies. This means that transitory events often have a disproportionate effect on the share prices of companies, be they positive or negative, and there is thus a tendency for share prices to deviate significantly from their inherent trend line. The Investment Manager's investment methodology seeks to identify and take advantage of the opportunities created by the divergence between a company's share price and its intrinsic value.

Investment Structure, Objectives and Methodology
- continued

The Investment Manager uses various methodologies to make sense of the universe of stocks around the world, including using both quantitative and qualitative screening to short-list companies for in-depth study. After identifying key themes and preferred industries, with due consideration of the macro environment, the portfolio is then built up through a series of individual stock selections based on detailed fundamental research. Care is taken to understand and monitor the inter-relationship of stocks within the portfolio.

The Investment Manager's investment team is based in Sydney, Australia. Having a single location facilitates the cross pollination of ideas and free flow of information between analysts with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter, enabling a more objective assessment of "noisy" markets. The research process, however, is well supported by extensive visits to companies and key regions.

The wealth of research and detailed analysis that leads to the addition/retention/reduction of a stock in the portfolio takes form in a disciplined process that is subject to the scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" investment theses, as well as add accountability to the process.

For a more detailed description of Platinum Investment Management Limited's investment process, we encourage you to visit Platinum's website.

Managing Currency Exposures
International equity investments create an exposure to foreign currency fluctuations, which can change the value of the equity investments when measured in the reporting currency of the Company's portfolio, which is the Australian dollar. It is part of the Company's investment strategy to assess the potential returns and risks created by currency exposures and to seek to position the portfolio with the aim of capturing those returns while minimising those risks. Currency exposures in the portfolio are actively managed by the Investment Manager. The aim is for the Company's portfolio to be exposed to the greatest extent possible to appreciating currencies and to minimise exposure to depreciating currencies. Accordingly, the level of the Company's hedging back into the Australian dollar will depend on the Investment Manager's assessment of future movements in currency exchange rates.

The Investment Manager may manage the currency exposures of the Company's portfolio using foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades.

As part of its investment process, the Manager may also assess the indirect impact of currency on the companies that it intends to invest in (e.g. the impact of currency fluctuations on a manufacturing business with significant export sales) and the potential for exchange rate movements to amplify or diminish Australian dollar returns for a holding. Cash positions may also be held in the portfolio taking into account the potential impact of currency movements (as well as interest rate and credit risk considerations).

Strategies Aimed at Containing Losses and Delivering Solid Absolute Returns

While generating capital growth over the long-term is the Company's primary objective, the Investment Manager also seeks to mitigate the risk of capital losses and employs a variety of strategies to achieve this.

Strategies aimed at containing capital losses include adjusting cash levels, deploying funds from overvalued to undervalued stocks and short selling usually through equity derivatives.

The Investment Manager has historically endeavoured to maintain an effective cash level of between 15% and 30% of the portfolio. In the event of a significant downturn, cash positions not only act as a valuable cushion, but also provide much needed "fire power" to take advantage of the opportunities that may become available.

Timing the implementation of these strategies is always challenging and, though the rewards can be gratifying, patience is often required. The nature of markets means it can take some time for inappropriately valued regions, industry sectors or individual stocks to become more widely recognised and to revert to levels close to their inherent values.

Directors' Report

In respect of the year ended 30 June 2019, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

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

Margaret Towers – Chairperson and Non-Independent Non-Executive Director
Richard Morath – Independent Non-Executive Director
Jim Clegg – Independent Non-Executive Director

Changes in Portfolio Management Responsibilities

As part of Platinum's long-term succession planning, on 1 July 2018, the portfolio management responsibilities for the Company were reallocated from Kerr Neilson to Andrew Clifford, Platinum's Chief Investment Officer. Andrew Clifford also assumed the role of Chief Executive Officer of the Platinum Group from Kerr Neilson with effect from 1 July 2018. Andrew Clifford was a founding director of Platinum Capital Limited in 1994.

Kerr Neilson remains a full time executive director of Platinum Asset Management Limited and a member of Platinum's investment team, continuing to work on the generation of investment ideas and company research.

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term through investment of funds internationally into securities of companies, which are perceived by the Investment Manager, Platinum Investment Management Limited, to be undervalued.

Operating and Financial Review

For the 12 months to 30 June 2019, the net loss before tax was $20,000 (2018: net profit before tax was $71,637,000) and net loss after tax was $373,000 (2018: net profit after tax was $50,353,000).

The Directors consider that pre-tax net tangible asset backing per share, after the deduction of fees and expenses, adjusted for corporate taxes paid, and any capital flows and assuming the reinvestment of dividends ("pre-tax NTA"), is a better measure of performance of the Company than the reported profits. This is because the pre-tax NTA per share is the most accurate way to assess the investment performance of the Company's investment portfolio. For the 12 months to 30 June 2019, the Company's pre-tax NTA per share decreased from $1.75 to $1.57. This is after the payment of 12 cents per share in dividends (including the special dividend of 3 cents per share) and the equivalent of 6 cents per share in taxes paid during the financial year.

For the 12 months to 30 June 2019, the Company delivered a return of 0.01%[1] (measured by its pre-tax NTA) versus a return of 11.3% for the benchmark Morgan Stanley Capital International All Country World Net Index (MSCI) in A$ terms[2]. For the 5 years to 30 June 2019, the Company delivered an annualised compound return of 8.6% per annum, measured by the Company's pre-tax NTA, versus the MSCI return of 12.6%. Despite a challenging 12 months, the 5 year absolute return remains in excess of 8% per annum compound and has been achieved with a fair degree of built in protection along the way. The Company's long-term (since inception) return of 12.0% per annum was approximately 70% greater than the MSCI return of 7.2% over the last 25 years.

As illustrated in the Financial Information Summary, the Company has an outstanding record of delivering absolute returns, largely as a consequence of containing losses during market downturns. Over all rolling five-year periods, commencing each month since inception, the Company has achieved positive returns far more frequently than the MSCI and with many more periods exceeding a compound return of 8% per annum. Moreover, the Company has recorded considerably fewer negative return periods and much smaller losses when negative returns did occur, compared to the MSCI.

The Investment Manager has recently commented that *"The US market is up over 300% in ten years, the rest of the world only one-third of that. That makes a huge difference when comparing the Company against the benchmark... However, trying to generate capital growth from investing in undervalued companies requires us to avoid the crowd and to explore change."*

In terms of outlook, the Investment Manager has recently noted that:

"The long positions in the Company's portfolio were trading on an average price-to-earnings (P/E) multiple of 10.7x and a price-to-book (P/B) multiple of 1.3x. These valuations compare favourably with market averages and our quantitative indicators lead us to believe that our portfolio is both more profitable and faster growing than our global universe of stocks. Further, our qualitative assessment is that the valuations of our individual holdings are not just attractive relative to the averages, but attractive on an absolute basis. It is these factors, which we judge our assessment of likely future returns, and result in us being optimistic about the Company's returns over the medium to long term. However, significant risks remain in the macroeconomic and market environment in the short-term. In particular, US trade policy and the impact on global growth. Valuations in the crowded sectors of equity markets: the safe havens and the high growth stocks are also cause for caution on broader markets."

1. Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

2. MSCI Inc Disclaimer: Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Annual Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without the express written consent of MSCI Inc.

Directors' Report - continued

The Company continues to have a strong balance sheet with few liabilities.

Dividends

For the 12 months to 30 June 2019, PMC's earnings per share was negative 0.13 cents per share. However, in accordance with its policy of dividend smoothing, the Board has declared a final 2019 fully-franked dividend of 4 cents per share ($11,543,000), with a record date of 27 August 2019, payable to shareholders on 13 September 2019, out of the dividend profit reserve.

The Company's ability to pay franked dividends is dependent on the Company paying income tax. At 15 August 2019, after allowing for the 2019 fully-franked final dividend of 4 cents per share, the Company has an ability to pay fully-franked dividends of up to 4.73 cents per share (including the 30 June 2019 tax liability). The Board has a policy of dividend smoothing and endeavours to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future.

After the payment of the 2019 final dividend, the balance in the dividend profit reserve is $63,441,000, which translates to 21.98 cents per share, based on the shares on issue at the date of this report. For the comparative reporting period, a fully-franked dividend of 6 cents per share ($17,155,000) was paid.

The dividend reinvestment plan (DRP) is in operation and a 2.5 per cent discount to the relevant share price applies.

Capital Management

The Company's capital management policy, as previously advised, is outlined below.

The Board will give active consideration, as appropriate, to enhancing shareholder value through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans or placements; or
- the use of share buy-backs.

Matters Subsequent to the End of the Financial Year

Apart from the dividend declared, no matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, to provide capital growth over the long-term through investing in companies and businesses worldwide which it perceives to be undervalued by the market. 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 laws.

Information on Directors

Margaret Towers CA, GAICD
Chairperson, Non-Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee since 31 March 2018.

Ms Towers has over 36 years of experience operating at board and senior management levels, within the wealth management and investment banking sectors of the Australian financial services industry. Ms Towers has also previously been a non-executive director of Platinum Asset Management Limited (ASX code: PTM), chairperson of PTM's Audit, Risk and Compliance Committee and a member of PTM's Nomination and Remuneration Committee. Ms Towers is a non-executive director of IMB Limited and is chairperson of Platinum Asia Investments Limited.

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

Mr Morath has over 45 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. Mr Morath is also a director of JANA Investment Advisors Limited, BNZ Life and chairman of BNZ Investment Services Limited.

Jim Clegg BRURSC (HONS), DIPAGEC
Independent, Non-Executive Director and member of the Audit, Risk and Compliance Committee since 5 June 2015.

Mr Clegg has over 31 years of experience in the financial services industry. Mr Clegg was the founding managing director of Pembroke Financial Planners and has been a director of Godfrey Pembroke, Berkley Group and Centric Wealth. Mr Clegg is currently a director of CCube Financial Software Pty Ltd.

Information on Company Secretary

Joanne Jefferies, BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 22 years of legal experience in the asset management and securities services sectors, in England and across Asia Pacific.

Ms Jefferies joined Platinum in October 2016 as General Counsel and Group Company Secretary, having spent the previous six years at BNP Paribas Securities Services as Head of Legal Asia Pacific, Company Secretary for all Australian subsidiaries and a member of the Asia Pacific Executive Committee. Ms Jefferies has previously held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett, and served as the General Counsel for the UK's funds management industry association, the Investment Association. Ms Jefferies is also Company Secretary of Platinum Asia Investments Limited and Platinum Asset Management Limited.

Directors' Report - continued

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and Audit, Risk and Compliance Committee held during the year ended 30 June 2019, and the number of meetings attended by each Director/Committee member were:

	BOARD (HELD 5) ATTENDED	AUDIT, RISK AND COMPLIANCE COMMITTEE (HELD 5) ATTENDED
Margaret Towers	5	5
Richard Morath	5	5
Jim Clegg	5	5

The Audit, Risk and Compliance Committee meet at least one week prior to the formal adoption of the annual and interim financial statements, in order to carry out a detailed review of the accounts.

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 audit and other (non-audit) services provided to the Company during the financial year by the auditor are outlined in Note 20 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 20 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 ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Managing Tax Risk

The Board is committed to acting with integrity and transparency in all tax matters. The Company aims to meet all of its obligations under the law and pay the appropriate amount of tax to the relevant authorities.

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 26.

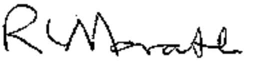
Auditor

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

Margaret Towers
Chairperson



Richard Morath
Director

15 August 2019
Sydney

Directors' Report - continued

Remuneration Report (audited)

Executive Summary

- The Company had three key management personnel ("KMP") during the financial year, being the Directors of the Company.
- The aggregate annual remuneration paid by the Company to the Chairperson during the financial year was $65,700 (including superannuation).
- The remuneration paid by the Company to each of the other Non-Executive Directors was $60,225 (including superannuation).
- There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 15 years.
- The Company does not pay bonuses to any of its Directors.

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 2019.

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
Margaret Towers	Chairperson and Non-Independent Non-Executive Director
Richard Morath	Non-Executive Director
Jim Clegg	Non-Executive Director

Shareholders' Approval of the 2019 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 on a show of hands, after validly appointed proxies indicated a "for" vote of 85.39%. Despite this outcome, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

Principles, Policy and Components of Non-Executive Directors' Remuneration

The Constitution of the Company requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to the 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 $186,150 in aggregate was paid to the Directors in 2019 (2018: $186,150).

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. There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 15 years. Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

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

Remuneration for Directors

The table below presents amounts received by the Directors in the current and prior year.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Margaret Towers					
FY 2019	60,000	5,700	–	–	65,700
Period from 1/4/2018 to 30/06/2018	15,000	1,425	–	–	16,425
Richard Morath					
FY 2019	55,000	5,225	–	–	60,225
FY 2018	55,000	5,225	–	–	60,225
Jim Clegg					
FY 2019	55,000	5,225	–	–	60,225
FY 2018	55,000	5,225	–	–	60,225
Bruce Coleman (retired 31 March 2018)					
Period from 1/7/2017 to 31/03/2018	45,000	4,275	–	–	49,275
Total remuneration					
FY 2019	170,000	16,150	–	–	186,150
FY 2018	170,000	16,150	–	–	186,150

Directors' Report - continued

Employment Arrangements of KMP

The key aspects of the KMP contracts are as follows:

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

Link between the Remuneration of the Directors and Company Performance

	2019	2018	2017	2016	2015
Total net investment income/(loss) ($'000)	**6,538**	78,807	77,086	(20,310)	71,098
Expenses ($'000)	**(6,558)**	(7,170)	(6,023)	(6,481)	(7,579)
(Loss)/profit after tax ($'000)	**(373)**	(50,353)	49,927	(18,764)	44,826
Earnings per share (cents per share)	**(0.13)**	17.66	20.03	(8.00)	19.29
Dividends (cents per share)	**10.0**[1]	10.0	10.0	7.0	11.0
Net Tangible Asset backing (pre-tax) (30 June) ($ per share)	**1.57**	1.75	1.63	1.44	1.70
Closing share price (30 June) ($)	**1.57**	2.09	1.685	1.62	1.77
Total fixed remuneration (salary and superannuation) paid ($)	**186,150**	186,150	186,150	186,150	169,725

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

1. **Includes the payment of a 3 cents per share special dividend paid in March 2019.**

Interests of 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
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Auditor's Independence Declaration

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2019, 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.

Simon Cuthbert
Partner
PricewaterhouseCoopers

15 August 2019
Sydney

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	NOTE	2019 $'000	2018 $'000
Investment income			
Dividends		**10,078**	8,844
Interest		**342**	101
Net (losses)/gains on equities/derivatives		**(5,295)**	68,492
Net (losses)/gains on foreign currency forward contracts		**(547)**	902
Net foreign exchange gains on overseas bank accounts		**1,960**	468
Total investment income	2	**6,538**	78,807
Expenses			
Management fees	19	**(5,107)**	(5,584)
Custody		**(230)**	(297)
Share registry		**(123)**	(177)
Continuous reporting disclosure		**(150)**	(226)
Directors' fees	21	**(186)**	(186)
Auditor's remuneration and other services	20	**(161)**	(104)
Brokerage and transaction costs		**(361)**	(355)
Other expenses		**(240)**	(241)
Total expenses		**(6,558)**	(7,170)
(Loss)/profit before income tax expense		**(20)**	71,637
Income tax expense	3(a)	**(353)**	(21,284)
(Loss)/profit after income tax expense for the year attributable to the owners of Platinum Capital Limited	8	**(373)**	50,353
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive Income for the year attributable to the owners of Platinum Capital Limited		**(373)**	50,353
Basic earnings per share (cents per share)	12	**(0.13)**	17.66
Diluted earnings per share (cents per share)	12	**(0.13)**	17.66

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 2019

	NOTE	**2019 $'000**	2018 $'000
Assets			
Cash and cash equivalents	13(a)	**65,056**	51,254
Receivables	6	**2,684**	5,192
Financial assets at fair value through profit or loss	4	**390,347**	448,907
Total assets		**458,087**	505,353
Liabilities			
Payables	7	**1,696**	1,540
Financial liabilities at fair value through profit or loss	5	**2,732**	2,493
Income tax payable	3(b)	**2,161**	6,091
Deferred tax liability	3(c)	**10,449**	23,942
Total liabilities		**17,038**	34,066
Net assets		**441,049**	471,287
Equity			
Issued capital	11	**385,202**	380,682
Retained earnings/(losses)	8	**(19,137)**	(18,764)
Dividend profit reserve	9	**74,984**	109,369
Total equity		**441,049**	471,287

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 2019

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2017	**376,895**	**(18,764)**	**87,445**	**445,576**
Profit after income tax expense for the year	–	50,353	–	50,353
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	50,353	–	50,353
Transfer of profit after income tax for the year, to the dividend profit reserve (Note 8 and Note 9)	–	(50,353)	50,353	–
Transactions with owners in their capacity as owners:				
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	3,787	–	–	3,787
Dividends paid (Note 10)	–	–	(28,429)	(28,429)
Balance at 30 June 2018	**380,682**	**(18,764)**	**109,369**	**471,287**

Statement of Changes in Equity - continued

For the year ended 30 June 2019

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2018	**380,682**	**(18,764)**	**109,369**	**471,287**
Loss after income tax expense for the year	–	(373)	–	(373)
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive loss for the year	–	(373)	–	(373)
Transactions with owners in their capacity as owners:				
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	4,520	–	–	4,520
Dividends paid (Note 10)	–	–	(34,385)	(34,385)
Balance at 30 June 2019	**385,202**	**(19,137)**	**74,984**	**441,049**

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 2019

	NOTE	**2019 $'000**	2018 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(208,022)**	(260,083)
Proceeds from sale of financial assets		**263,107**	291,742
Dividends received		**10,408**	9,330
Interest received		**339**	120
Management fees paid		**(5,150)**	(5,550)
Other expenses paid		**(1,498)**	(1,655)
Income tax paid		**(16,573)**	(9,420)
Net cash from/(used in) operating activities	13(b)	**42,611**	24,484
Cash flows from financing activities			
Dividends paid – net of dividend re-investment plan	10	**(30,005)**	(24,695)
Proceeds from issue of shares in relation to unclaimed dividends	11	**118**	90
Net cash from/(used in) financing activities		**(29,887)**	(24,605)
Net increase/(decrease) in cash and cash equivalents		**12,724**	(121)
Cash and cash equivalents at the beginning of the year		**51,254**	51,110
Effects of exchange rate changes on cash and cash equivalents		**1,078**	265
Cash and cash equivalents at the end of the year	13(a)	**65,056**	51,254

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

Notes to the Financial Statements

30 June 2019

Note 1. Summary of significant accounting policies

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

Basis of preparation

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

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities measured at fair value.

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

Critical accounting judgements, estimates and assumptions

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

Fair value measurement hierarchy (refer to Note 17)

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

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

Note 1. Summary of significant accounting policies – continued

Basis of preparation – continued

Recovery of deferred tax assets (refer to Note 3(c))
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.

Functional currency (refer to the "foreign currency transactions" policy)
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"), which is the Australian Dollar. Refer to the "foreign currency transactions" policy on page 36 for further information on this.

Financial assets/liabilities at fair value through profit or loss

Under AASB 9: *Financial Instruments*, financial instruments may be classified as:

- amortised cost if the objective of the business model is to hold the financial instruments to collect contractual cash flows and those cash flows represent solely payments of principal and interest (SPPI);
- fair value through other comprehensive income if the objective of the business model is to hold the financial instruments to collect contractual cashflows from SPPI and to sell; or
- all other financial instruments must be recognised at fair value through profit or loss. An entity can, at initial recognition, also irrevocably designate a financial instrument as measured at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

For equity securities, derivatives and foreign currency forward contracts, the contractual cash flows held by the Company are not comprised of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

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.

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.

Notes to the Financial Statements

30 June 2019

Note 1. Summary of significant accounting policies – continued

Financial assets/liabilities at fair value through profit or loss – continued

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

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

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

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

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

Fair value in an active market

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

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

Fair value in an inactive market or unquoted market

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

Note 1. Summary of significant accounting policies – continued

Financial assets/liabilities at fair value through profit or loss – continued

Recognition

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

Investments are derecognised when the contractual right to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures financial assets and financial liabilities at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within "net (losses)/gains on equities/derivatives" or "net (losses)/gains on foreign currency forward contracts" in the period in which they arise.

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. Please refer Note 18 for further information.

Brokerage and transaction costs on financial assets

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

Operating segments

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

Notes to the Financial Statements

30 June 2019

Note 1. Summary of significant accounting policies – continued

Foreign currency transactions

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the country that the Company is regulated, capital is raised and dividends are paid. 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.

Investment income

Interest income

Interest income from financial assets at amortised cost are recognised on a time proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss are determined based on the contractual coupon interest rate and may include interest from debt securities.

Dividend income

Dividend income is brought to account on the applicable ex-dividend date for equities and the payment date for Participatory Notes.

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 or receivable 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.

Note 1. Summary of 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.

Receivables

Receivables include proceeds from the sale of financial assets, dividends, GST, Indian Capital Gains Tax and interest receivables. All receivables are recognised when a right to receive payment is established. Receivables are generally received within 30 days of being recognised as a receivable.

Due from/due to brokers for unsettled trades

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

Cash and cash equivalents

For the 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.

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

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.

Notes to the Financial Statements

30 June 2019

Note 1. Summary of significant accounting policies – continued

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

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.

Expenses

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

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.

Rounding of amounts

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

New accounting standards and interpretations adopted for the first time

Other than as noted below, there are no accounting standards, interpretations or amendments to existing standards that are effective for the first time for the year ended 30 June 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(a) Adoption of AASB 9: Financial Instruments ("AASB 9")

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also introduced revised rules around hedge accounting and impairment. The standard was applicable for the year ended 30 June 2019.

AASB 9 replaced the classification and measurement model in AASB 139: *Financial Instruments: Recognition and Measurement* with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Note 1. Summary of significant accounting policies – continued

New accounting standards and interpretations adopted for the first time – continued

AASB 9 has been applied by the Company from 1 July 2018 and the standard did not result in a change to the classification or measurement of financial instruments, given no debt instruments are held by the Company, which could result in a reclassification of the financial instruments to amortised cost or fair value through other comprehensive income ("FVOCI"). The derecognition rules have not been changed from previous requirements and the Company does not apply hedge accounting.

For further details on how the fair values of financial instruments are determined, refer to the accounting policy in relation to "Financial assets/liabilities at fair value through profit or loss".

(b) Adoption of AASB 15: Revenue from contracts with customers and associated amendments ("AASB 15")

The main objective of this 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 standard is applicable for annual reporting periods beginning on or after 1 January 2018.

The Company adopted AASB 15 for reporting periods commencing 1 July 2018. The Company's main source of income is investment income, in the form of gains on equities and derivatives, foreign currency forward contracts and overseas bank accounts, as well as interest and dividend income. All of these income types are outside the scope of the standard. The standard was assessed as not having a material impact on the Company's results in the current period.

AASB 15 did not result in a material change in revenue recognition for the Company.

New standards, amendments and interpretations effective after 1 January 2019 that have not been early adopted

Australian Accounting Standards issued or amended and Interpretations that are of relevance to the Company but are not mandatory and have not been early adopted for the annual reporting period ended 30 June 2019, and the Company's assessment of the impact of these issued or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below:

AASB 16: Leases (effective from 1 January 2019)

AASB 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. Management does not expect the adoption of this standard to have any impact on the accounting policies or amounts recognised in the financial statements, as the Company does not hold any leases.

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Notes to the Financial Statements

30 June 2019

Note 2. Operating segments

Identification of reportable operating segments

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

	2019 $'000	2018 $'000
(a) Investment income by investment type		
Equity securities	**4,540**	84,996
Derivatives	**243**	(7,660)
Foreign currency forward contracts	**(547)**	902
Bank accounts	**2,302**	569
Total	**6,538**	78,807
(b) Investment income by geographical area		
Japan	**1,363**	8,500
Asia ex Japan	**15,178**	27,715
Australia	**(1,811)**	2,659
Europe – Euro	**(2,403)**	9,595
Europe – Other	**2,017**	7,569
North America	**(5,501)**	21,989
South America	**3**	(268)
Africa	**(1,761)**	146
Unallocated investment income – Net (losses)/gains on foreign currency forward contracts	**(547)**	902
Total	**6,538**	78,807

Please refer to Note 16 for a breakdown of the geographic (physical) and currency exposure of the Company's underlying investments.

Note 3. Income tax

(a) Income tax expense

	2019 $'000	2018 $'000
The income tax expense attributable to the operating (loss)/profit comprises:		
Current income tax provision	**(12,686)**	(16,721)
Movement in deferred tax liability	**13,493**	(3,664)
Withholding tax on foreign dividends	**(1,202)**	(899)
Over provision of prior period tax	**42**	–
Income tax expense	**(353)**	(21,284)

	2019 $'000	2018 $'000
The income tax expense attributable to the financial year differs from the prima facie amount payable on the operating (loss)/profit. The difference is reconciled as follows:		
(Loss)/profit before income tax expense	**(20)**	71,637
Prima facie income tax at tax rate of 30%	**6**	(21,491)
Additional Australian tax payable on underlying investments	**(382)**	–
Foreign tax credits	**(19)**	207
Over provision of prior period tax	**42**	–
Income tax expense	**(353)**	(21,284)

(b) Income tax payable

	2019 $'000	2018 $'000
The income tax payable as disclosed in the statement of financial position is comprised of:		
Current income tax provision	**(12,686)**	(16,721)
Income tax instalments paid	**10,525**	10,630
Income tax payable	**(2,161)**	(6,091)

Notes to the Financial Statements

30 June 2019

Note 3. Income tax – continued

(c) Deferred tax liability

In line with our existing accounting policy, the Company has exercised judgement in determining the extent of recognition of deferred tax balances.

The deferred tax liability figure in the statement of financial position is comprised of:

	2019 $'000	2018 $'000
Deferred tax liability on dividends accrued	**(215)**	(311)
Deferred tax liability on unrealised gains on investments	**(10,432)**	(23,914)
Deferred tax asset on expense accruals	**56**	69
Deferred tax asset of capital raising and legal costs (deductible over 5 years)	**142**	214
Deferred tax liability	**(10,449)**	(23,942)

At 30 June 2019, the Company is in a deferred tax liability position and this is predominantly because the Company has net unrealised gains on investments of $34,773,000 (2018: $79,713,000). The tax impact on these unrealised gains of $10,432,000 (2018: $23,914,000) formed a major part of the overall net deferred tax liability.

The realised tax balance will depend on the actual gains generated as and when the investments are sold.

	2019 $'000	2018 $'000
Note 4. Financial assets at fair value through profit or loss		
Equity securities	**388,789**	444,444
Derivatives	**943**	2,553
Foreign currency forward contracts	**615**	1,910
	390,347	448,907
Note 5. Financial liabilities at fair value through profit or loss		
Derivatives	**1,516**	239
Foreign currency forward contracts	**1,216**	2,254
	2,732	2,493

	2019 $'000	2018 $'000
Note 6. Receivables		
Proceeds from sale of financial assets	**1,806**	3,955
Capital Gains Tax receivable	**18**	48
Dividends receivable	**715**	1,046
Interest receivable	**37**	33
Goods and Services Tax receivable	**46**	51
Prepayments	**62**	59
	2,684	5,192
Note 7. Payables		
Payables on purchase of financial assets	**1,006**	737
Trade creditors (unsecured)	**630**	721
Unclaimed dividends payable to shareholders	**57**	79
PAYG Tax payable	**3**	3
	1,696	1,540

Information relating to the Company's exposure of payables to liquidity risk is shown in Note 16.

	2019 $'000	2018 $'000
Note 8. Retained earnings		
Opening balance	**(18,764)**	(18,764)
(Loss)/profit after income tax expense for the year	**(373)**	50,353
Transfer to dividend profit reserve (see Note 9)*	**–**	(50,353)
Closing balance	**(19,137)**	(18,764)

* The current year loss after income tax expense (together with any prior period losses) was not transferred to the dividend profit reserve.

Notes to the Financial Statements

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Note 9. Dividend profit reserve

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/(losses). The current year loss after income tax expense was not transferred to the dividend profit reserve. A summary of the movement in this account is shown below.

	2019 $'000	2018 $'000
Opening balance 1 July 2018 (1 July 2017)	**109,369**	87,445
Transfer of operating profit after tax from retained earnings	**–**	50,353
Dividends paid (see Note 10)*	**(34,385)**	(28,429)
Closing balance	**74,984**	109,369

* Dividends are paid out of the dividend profit reserve. Subsequent to 30 June 2019, the 2019 annual fully-franked dividend of 4 cents per share was declared out of the reserve. The balance in the dividend profit reserve after providing for the 2019 final dividend is $63,441,000 (or 21.98 cents per share, based on the current shares on issue).

Note 10. Dividends

Dividends paid during the financial year were as follows:

Final dividend paid for the 2018 financial year (6 cents per share)	**17,155**	–
Interim dividend paid for the 2019 financial year (3 cents per share)	**8,615**	–
Special dividend paid for the 2019 financial year (3 cents per share)	**8,615**	–
Final dividend paid for the 2017 financial year (6 cents per share)	**–**	17,025
Interim dividend paid for the 2018 financial year (4 cents per share)	**–**	11,404
	34,385	28,429

The "dividends paid – net of dividend re-investment plan" figure shown in the statement of cash flows is determined as follows:

Gross dividends paid (from above)	**(34,385)**	(28,429)
(Decrease)/increase in unclaimed dividends payable (Note 7)	**(22)**	37
Dividend re-investment plan allotment (Note 11)	**4,402**	3,697
Dividends paid – net of dividend re-investment plan	**(30,005)**	(24,695)

Note 10. Dividends – continued

Dividends not recognised at year-end

In addition to the above dividends paid during the period, on 15 August 2019, the Directors declared the payment of a 2019 final fully-franked dividend of 4 cents per share. The aggregate amount of this dividend expected to be paid on 13 September 2019, but not recognised as a liability at year-end, is $11,543,000. The dividend will be paid out of the dividend profit reserve.

	2019 $'000	2018 $'000
Franking credits		
Franking credits available at the balance date based on a tax rate of 30%	**8,633**	6,767
Franking credits that will arise from the tax payable at balance date based on a tax rate of 30%	**2,161**	6,091
Franking credits available for future franked dividends based on a tax rate of 30%	**10,794**	12,858
Franking debits that will arise from the payment of dividends declared subsequent to the balance date based on a tax rate of 30%	**(4,947)**	(7,352)
Net franking credits available based on a tax rate of 30%	**5,847**	5,506

At 15 August 2019, the available franking credits balance after providing for the 2019 final dividend would enable the payment of a fully-franked dividend of up to 4.73 cents per share fully-franked.

Notes to the Financial Statements

30 June 2019

	2019 SHARES	2018 SHARES	2019 $'000	2018 $'000
Note 11. Issued capital				
Ordinary shares – fully paid	**288,569,783**	285,921,034	**385,202**	380,682

DETAILS	DATE	SHARES	$'000
Balance	30-Jun-17	283,753,289	376,895
Dividend reinvestment plan[a]	11-Sep-17	1,348,172	2,211
Reinvestment of unclaimed dividends[b]	19-Sep-17	17,550	30
Dividend reinvestment plan[a]	13-Mar-18	771,452	1,486
Reinvestment of unclaimed dividends[b]	19-Mar-18	30,571	60
Balance	30-Jun-18	285,921,034	380,682
Dividend reinvestment plan[a]	12-Sep-18	1,219,301	2,191
Reinvestment of unclaimed dividends[b]	19-Sep-18	28,170	54
Dividend reinvestment plan[a]	19-Mar-19	1,360,673	2,211
Reinvestment of unclaimed dividends[b]	21-Mar-19	40,605	64
Closing balance	30-Jun-19	288,569,783	385,202

(a) Shares were issued under the dividend reinvestment plan at a 2.5% discount to the volume-weighted price of the Company's shares traded on the Australian Securities Exchange (ASX), over the five business days subsequent to the date on which the Company shares ceased to trade cum-dividend.

(b) Dividends that remain unclaimed after 6 months from payment date are automatically reinvested into additional shares in the Company.

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.

Rights issue or share buy-back

There is no current rights issue or share buy-back in place.

	2019 $'000	2018 $'000
Note 12. Earnings per share		
(Loss)/profit after income tax attributable to the owners of Platinum Capital Limited	**(373)**	50,353
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**287,317,516**	285,090,427
	CENTS	CENTS
Basic earnings per share	**(0.13)**	17.66
Diluted earnings per share	**(0.13)**	17.66

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 and reinvestment of unclaimed dividends. Therefore, diluted earnings per share equals basic earnings per share.

	2019 $'000	2018 $'000
Note 13. Notes to the statement of cash flows		
(a) Components of cash and cash equivalents		
Cash at bank*	**76**	62
Cash on deposit held within the portfolio**	**64,980**	51,192
	65,056	51,254

* Cash at bank includes $76,000 (2018: $62,000) held in respect of unclaimed dividends on behalf of shareholders.

** Cash on deposit includes $19,566,000 (2018: $12,404,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls.

These amounts are held by the relevant derivative exchanges and counterparties as security. If losses are realised, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bear floating interest rates in the range of –0.35% to 1.7% (2018: –0.6% to 0.35%).

Notes to the Financial Statements

30 June 2019

	2019 $'000	2018 $'000
Note 13. Notes to the statement of cash flows – continued		
(b) Reconciliation of (loss)/profit after income tax to net cash from operating activities		
(Loss)/profit after income tax expense for the year	**(373)**	50,353
Adjustments for non-operating and non-cash items:		
Foreign exchange (gains)	**(1,078)**	(265)
Decrease/(increase) in investment securities and foreign currency forward contracts	**58,799**	(31,626)
Change in operating assets and liabilities:		
Decrease in deferred tax asset	**85**	142
Decrease/(increase) in settlements receivable	**2,149**	(2,381)
Increase/(decrease) in settlement payable	**269**	(3,033)
(Increase)/decrease in interest receivable	**(4)**	20
Decrease in dividends receivable	**331**	486
(Increase) in prepayments	**(3)**	(59)
Decrease in Capital Gains Tax receivable	**30**	1
(Decrease)/increase in trade and other payables	**(91)**	32
(Decrease)/increase in deferred tax liability	**(13,578)**	3,522
Decrease/(Increase) in Goods and Services Tax receivable	**5**	(9)
(Decrease)/increase in income tax payable	**(3,930)**	6,091
Decrease in income tax receivable	**–**	1,210
Net cash from operating activities	**42,611**	24,484

	2019 $'000	2018 $'000

Note 14. Statement of Post-tax Net Tangible Asset Backing (NTA)

	2019 $'000	2018 $'000
Reconciling Net Tangible Asset backing (post-tax) in accordance with Australian Accounting Standards to that reported to the ASX		
Post-tax Net Tangible Asset backing per statement of financial position	**441,049**	471,287
Realisation costs and accruals*	**(963)**	(1,102)
Deferred income tax asset on realisation costs	**254**	368
Post-tax Net Tangible Asset backing as reported to the ASX	**440,340**	470,553

The post-tax Net Tangible Asset backing per share at 30 June 2019 was $1.5259 per share (30 June 2018: $1.6457).

* The difference between the ASX and financial accounts reporting is mainly caused by the ASX requirement that realisation costs need to be deducted for the ASX reporting of Net Tangible Asset backing (NTA) per share.

Note 15. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2019 $'000
Japan		
Itochu	290,011	7,898
Lixil	373,750	8,415
Minebea Mitsumi	279,434	6,738
Nikkei – short index future	(98)	(113)
Nitto Denko	76,000	5,339
Sumco	325,415	5,512
Sumitomo Metal Mining	174,683	7,430
Toyota Industries	84,833	6,647
Total Japan		**47,866**

Notes to the Financial Statements

30 June 2019

	QUANTITY	2019 $'000
Note 15. Investment Portfolio – continued		
Asia ex Japan		
China		
Anta Sports Products	570,410	5,581
China Everbright International	2,746,594	3,612
China Merchants Bank – Participatory notes	596,991	4,510
China Overseas Land and Investment	2,204,512	11,579
China ZhengTong Auto Services Holdings	2,994,872	1,770
EcoGreen International	8,563,839	2,452
Jiangsu Yanghe Brewery	7,876	199
Jiangsu Yanghe Brewery – Participatory notes	373,720	9,427
Kweichow Moutai – Participatory notes	24,202	4,940
MMG	4,894,965	2,437
PICC Property and Casualty	6,096,113	9,372
Ping An A Share – Participatory notes	1,137,775	20,822
Tencent	141,022	9,068
Weibo	99,252	6,158
Weichai Power – Long equity swap	640,840	25
Weichai Power – Participatory notes	1,342,000	3,422
ZTO Express	272,851	7,432
		102,806
Hong Kong		
AIA Group	358,900	5,514
		5,514
India		
Axis Bank	316,107	5,275
Bharti Airtel	1,435,117	10,267
ICICI Bank	764,846	6,900
IDFC	155,573	111
IDFC Bank	2,209,431	1,972
		24,525

	QUANTITY	2019 $'000
Note 15. Investment Portfolio – continued		
Asia ex Japan – continued		
Thailand		
Kasikornbank – Non Voting Depository Receipt	252,706	2,206
		2,206
South Korea		
Celltrion – short equity swap	(7,956)	(35)
KB Financial	193,986	10,072
LG Chem	15,095	6,601
Samsung Electronics – preference shares	196,160	11,374
Samsung Biologics – short equity swap	(5,398)	(37)
		27,975
Total Asia ex Japan		**163,026**
Australia		
Qantas Airways – short equity swap	(211,626)	30
Syrrah Resources – rights	43,710	–
Western Areas	1,321,829	2,597
Total Australia		**2,627**
Europe – Euro		
Austria		
Raiffeisen Bank	140,319	4,689
		4,689
France		
Sanofi	58,187	7,155
Valeo	115,793	5,365
		12,520
Ireland		
Ryanair – long equity swap	254,826	39
		39
Italy		
Intesa Sanpaolo SpA	1,492,257	4,550
		4,550

Notes to the Financial Statements

30 June 2019

	QUANTITY	2019 $'000
Note 15. Investment Portfolio – continued		
Europe – Euro – continued		
Germany		
Bayerische Motoren Werke	48,397	5,103
Daimler	55,500	4,399
Dax – short index future	(28)	(461)
Hornbach	4,625	374
Hornbach Baumarkt	41,542	1,161
		10,576
Total Europe – Euro		**32,374**
Europe – Other		
Denmark		
Pandora	32,459	1,645
		1,645
Norway		
Schibsted – A share	31,008	1,218
Schibsted – B share	19,185	712
Yara International	70,727	4,887
		6,817
Switzerland		
Glencore	2,394,527	11,841
Roche	18,648	7,475
		19,316
United Kingdom		
Just Eat – short equity swap	(258,472)	17
Technip FMC	57,686	2,112
Technip	249,431	9,218
		11,347
Total Europe – Other		**39,125**

	QUANTITY	2019 $'000
Note 15. Investment Portfolio – continued		
North America		
Canada		
Constellation Software	1,358	1,823
First Quantum Minerals	282,571	3,825
Great Basin Gold	192,636	–
Seven Generations Energy	500,420	3,495
		9,143
United States		
Ally Financial	70,177	3,098
Alphabet (Google)	6,727	10,365
American Eagle Outfitters	74,512	1,794
Booking	2,253	6,017
CF Industries	68,077	4,530
Church & Dwight – short equity swap	(23,375)	142
Colgate Palmolive – short equity swap	(12,393)	23
Elastic NV – short equity swap	(9,600)	12
Facebook	52,425	14,414
General Electric	215,306	3,221
Gilead Sciences	46,500	4,475
Intel	131,781	8,987
Intuitive Surgical – short equity swap	(6,449)	25
Kimberly Clark – short equity swap	(6,625)	29
Microchip Technology	52,241	6,452
Micron Technology	141,556	7,782
Moderna	41,243	860
MongoDB – short equity swap	(32,650)	599
MS Software Service – short equity swap	(21,408)	(87)
Nasdaq E-mini – short index future	(123)	(662)
Owens Corning	33,274	2,759
Peabody Energy	48,895	1,679
Skyworks Solutions	62,573	6,888

Notes to the Financial Statements

30 June 2019

	QUANTITY	2019 $'000
Note 15. Investment Portfolio – continued		
North America – continued		
United States – continued		
Smurfit Stone – ESCROW	225,000	–
Tesla Motors – short equity swap	(20,645)	(104)
Transocean	457,194	4,175
Wabtec	1,156	118
Wal Mart – short equity swap	(23,151)	(6)
Warrior Met Coal	34,200	1,273
		88,858
Total North America		**98,001**
South America		
Brazil		
BRF SA	232,523	2,539
StoneCo – short equity swap	(22,000)	(9)
		2,530
Peru		
Peru Holding De Turismo	1,667,523	–
		–
Total South America		**2,530**

Note 15. Investment Portfolio – continued

	QUANTITY	2019 $'000
Africa		
Zimbabwe		
Axia Corp	1,391,123	119
Cassava Smartech	2,336,111	654
Econet Wireless	3,033,910	867
Innscor Africa	1,545,692	626
Masimba	7,148,763	120
Old Mutual	5,200	11
Simbisa Brands	1,391,123	270
		2,667
Total Africa		**2,667**
Total equities and derivatives (Note 4 and Note 5)*		**388,216**

* From Note 4 (financial assets), the total of equity securities was $388,789,000 and the total of derivatives was $943,000 less from Note 5 (financial liabilities), the total of derivatives of $1,516,000. This results in a total of $388,216,000.

Add	
Receivable from the proceeds from sale of financial assets (Note 6)	1,806
Payables on purchase of financial assets (Note 7)	(1,006)
Dividends receivable (Note 6)	715
Cash on deposit held within the portfolio (Note 13)	64,980
Foreign currency forward contracts (Note 4 and Note 5)	(601)
Total Investment Portfolio (reconciles to Note 16: Foreign exchange risk on page 59)	**454,110**

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

Number of transactions – 1,515

Total brokerage paid – $1,103,000 ($361,000 on purchases and $742,000 on sales)

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30 June 2019

Note 16. Financial risk management

Financial risk management objectives

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

The Investment Manager'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.

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

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

The Company's underlying value of derivatives positions may not exceed 100% of the Company's Net Asset Value (NAV). The underlying value of long stocks and long derivative positions may not exceed 150% of the Company's NAV. Where options are employed, the underlying value will be the delta-adjusted exposure.

The Company may employ leverage through derivatives up to 150% of its NAV. The Company's exposure against these limits is regularly monitored by the Investment Manager. In addition, quarterly exposure reports are provided to the Audit, Risk and Compliance Committee. Theoretically, it is possible that the Company could lose its entire NAV from losses on its derivatives positions. As ordinary shares of the Company are fully paid, a shareholder's exposure to any such losses would not exceed the value of their shareholding.

Note 16. Financial risk management – continued

The tables below summarise the Company's investments at fair value and long and short derivatives effective exposure.

2019	**PHYSICAL $'000**	**LONG DERIVATIVES CONTRACTS $'000**	**SHORT DERIVATIVES CONTRACTS $'000**	**NET EXPOSURE $'000**
Japan	**47,979**	**–**	**(13,739)**	**34,240**
Asia ex Japan*	**163,072**	**1,634**	**(4,148)**	**160,558**
Australia	**2,597**	**–**	**(1,142)**	**1,455**
Europe – Euro	**32,797**	**4,148**	**(14,047)**	**22,898**
Europe – Other	**39,108**	**–**	**(2,922)**	**36,186**
North America	**98,030**	**–**	**(65,488)**	**32,542**
South America	**2,539**	**–**	**(927)**	**1,612**
Africa	**2,667**	**–**	**–**	**2,667**
	388,789	**5,782**	**(102,413)**	**292,158**

2018	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
Japan	76,877	–	–	76,877
Asia ex Japan	167,755	2,498	–	170,253
Australia	4,706	–	–	4,706
Europe – Euro	34,911	–	–	34,911
Europe – Other	65,900	–	–	65,900
North America	89,251	–	(87,980)	1,271
Africa	5,044	–	–	5,044
	444,444	2,498	(87,980)	358,962

The first column in the 2019 table represents the location of the Company's investments. The Investments shown on the "Physical" column (totalling $388,789,000 for 2019) reconciles to the fair value of equity securities disclosed in Note 4, being $388,789,000 for equity securities.

* The three largest contributors to the "Asia ex Japan" category at 30 June 2019 were as follows:

	PHYSICAL EXPOSURE $'000	NET EXPOSURE $'000
Chinese investments (including Chinese investments listed on the Hong Kong stock exchange)	102,779	104,413
Korea	28,047	23,899
India	24,525	24,525

Notes to the Financial Statements

30 June 2019

Note 16. Financial risk management – continued

The "Long/Short Derivatives Contracts" columns include the effective exposure 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. All securities, including equity swaps and derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position.

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 currencies. Platinum Investment Management Limited selects stocks based on value regardless of geographic location. The Company undertakes certain transactions denominated in foreign currencies and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Active currency management is an integral part of the management of currency risk. Platinum Investment Management Limited may position the Company's portfolio in what it believes will be a stronger performing currency(ies). At 30 June 2019, the Company's exposure to the US dollar increased to 38% (30 June 2018: 30%).

The Company maintained relatively high exposure levels to the Japanese Yen and Hong Kong Dollar. Japanese Yen exposure was 16% (30 June 2018: 12%) and Hong Kong Dollar exposure was 14% (30 June 2018: 13%). Euro exposure was 13% (30 June 2018: 12%).

Platinum Investment Management Limited may use foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades to position the portfolio in the desired currencies. A currency exposure may be hedged into a different currency from that which the physical 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 Investment Management Limited may look for investments whose operating environment has been distorted by the lower currency as part of the search for undervalued stocks. There may be opportunities to invest in stocks impacted by a lower currency (for example, export-oriented stocks).

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

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk – continued

2019	**PHYSICAL $'000**	**BOUGHT $'000**	**SOLD $'000**	**NET EXPOSURE $'000**
Japan	**50,622**	**22,532**	**–**	**73,154**
Asia ex Japan*	**161,709**	**–**	**(68,115)**	**93,594**
Australia	**2,315**	**602**	**–**	**2,917**
Europe – Euro	**57,362**	**–**	**–**	**57,362**
Europe – Other	**34,144**	**7,914**	**–**	**42,058**
North America	**143,291**	**67,433**	**(30,366)**	**180,358**
South America	**1,966**	**–**	**–**	**1,966**
Africa	**2,701**	**–**	**–**	**2,701**
	454,110	**98,481**	**(98,481)**	**454,110**

2018	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	90,542	–	(30,045)	60,497
Asia ex Japan	143,423	11,017	–	154,440
Australia	6,683	340	(2,050)	4,973
Europe – Euro	53,644	15,802	(8,889)	60,557
Europe – Other	48,708	17,999	(10,198)	56,509
North America	157,753	51,633	(45,609)	163,777
Africa	1,117	–	–	1,117
	501,870	96,791	(96,791)	501,870

* The largest contributors to the "Asia ex Japan" category at 30 June 2019 were as follows:

	NET EXPOSURE $'000	CURRENCY EXPOSURE %
Hong Kong dollar	63,160	13.9
Korean won	27,976	6.2
Indian rupee	25,018	5.5
Chinese yuan	(24,765)	(5.5)
Other Asian currencies	2,205	–
	93,594	20.1

Notes to the Financial Statements

30 June 2019

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk – continued

Foreign currency forward 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 foreign currency forward contract positions' maturity date is 80 days from the balance sheet date.

Foreign exchange risk sensitivity analysis

The table below summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United 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 was exposed at 30 June 2019.

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

2019	**INCREASE % CHANGE**	**AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000**	**DECREASE % CHANGE**	**AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000**
United States dollar	**10%**	**(17,606)**	**(10%)**	**21,518**
Hong Kong dollar	**10%**	**(5,742)**	**(10%)**	**7,018**
Other currencies	**10%**	**(14,748)**	**(10%)**	**18,026**
		(38,096)		**46,562**

2018	INCREASE % CHANGE	AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000	DECREASE % CHANGE	AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000
United States dollar	10%	(14,041)	(10%)	17,161
Hong Kong dollar	10%	(5,927)	(10%)	7,245
Other currencies	10%	(24,809)	(10%)	30,322
		(44,777)		54,728

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk sensitivity analysis – continued

The weakening of the AUD will increase the operating profit. A strengthening of the AUD will decrease the operating profit.

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 majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Cash holdings are directly affected by interest rate movements, but at balance date, interest rates on these cash accounts are very low (and range from –0.35% to 1.7%).

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 2019 and 2018, if interest rates had changed by +/–100 basis points with all other variables held constant, the direct impact on interest income would not have been significant for the Company.

Price risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. Platinum Investment Management Limited's stock selection process is core to the management of price risk. The Investment Manager adopts a thematic stock selection approach and is an "active manager". Platinum Investment Management Limited 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 the MSCI All Country World index on the basis that the Investment Manager remains index agnostic.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2019, the Company maintained short positions against market indices and company-specific stocks.

Notes to the Financial Statements

30 June 2019

Note 16. Financial risk management – continued

Price risk – continued

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The below analysis is based on net positions and includes the impact of hedging. At 30 June 2019, the two markets that the Company had the biggest investment exposure to were China (including Chinese investments listed on the foreign stock exchanges) and Japan. The effect on profit due to a possible change in market prices, as represented by a –/+10% movement in these markets with all other variables held constant, is illustrated in the table below:

2019	**INCREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**	**DECREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**
China (including Chinese investments listed on the Hong Kong stock exchange)	**10%**	**10,441**	**(10%)**	**(10,441)**
Japan	**10%**	**4,795**	**(10%)**	**(4,795)**
All other markets	**10%**	**19,428**	**(10%)**	**(19,428)**
		34,664		**(34,664)**

2018	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)
China (including Chinese investments listed on the Hong Kong stock exchange)	10%	10,423	(10%)	(10,423)
Japan	10%	7,688	(10%)	(7,688)
All other markets	10%	23,904	(10%)	(23,904)
		42,015		(42,015)

Note 16. Financial risk management – continued

Credit risk

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

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

RATINGS	**2019 $'000**	2018 $'000
A	**–**	38,757
A–	**21,477**	16,622
AA–	**47,241**	–
BBB+	**38,809**	16,122
Total	**107,527**	71,501

Independent rating agencies consider a credit rating of BBB or higher to be investment grade.

Platinum Investment Management Limited regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by spreading exposure over a number of counterparties by entering into ISDA (International Swaps and Derivatives Association) master agreements and net settlement contracts on behalf of the Company, employing two-way 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.

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 will:

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

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

Notes to the Financial Statements

30 June 2019

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities

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

2019	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	**1,680**	**16**	**1,696**
Income tax payable (Note 3)	**–**	**2,161**	**2,161**
Total non-financial	**1,680**	**2,177**	**3,857**
Financial			
Derivative contractual outflows (Note 5)	**1,516**	**–**	**1,516**
Foreign currency forward contractual outflows (Note 5)	**1,216**	**–**	**1,216**
Total financial	**2,732**	**–**	**2,732**

2018	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	1,509	31	1,540
Income tax payable (Note 3)	–	6,091	6,091
Total non-financial	1,509	6,122	7,631
Financial			
Derivative contractual outflows (Note 5)	229	–	229
Foreign currency forward contractual outflows (Note 5)	2,254	–	2,254
Total financial	2,493	–	2,493

At 30 June 2019, there are no other contractual amounts payable after 12 months.

The Company has sufficient funds to meet these liabilities as the value of total net assets realisable in one year or less, excluding brokerage costs, is $455,420,000 (2018: $481,411,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities – continued

All securities, including equity swaps and derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position.

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

Fair value of financial instruments

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

Capital risk management

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

The Company's key investment objective is to provide capital growth over the long-term through investing in companies and businesses worldwide which it perceives to be undervalued by the market.

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans and/or placements; or
- use of share buy-backs.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules. For example, the Company must report its Net Tangible Asset backing per share (NTA) to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

Notes to the Financial Statements

30 June 2019

Note 17. 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:

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 and liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

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

(ii) Short equity swaps and short futures; and

(iii) Foreign currency forward contracts.

The following table details the Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy model.

30 JUNE 2019	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	**343,003**	**43,119**	**2,667**	**388,789**
Derivatives	–	**943**	–	**943**
Foreign currency forward contracts	–	**615**	–	**615**
Total assets	**343,003**	**44,677**	**2,667**	**390,347**
Liabilities				
Derivatives	**1,236**	**280**	–	**1,516**
Foreign currency forward contracts	–	**1,216**	–	**1,216**
Total liabilities	**1,236**	**1,496**	–	**2,732**

Note 17. Fair value measurement – continued

Fair value hierarchy – continued

30 JUNE 2018	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	423,183	17,334	3,927	444,444
Derivatives	1,364	1,189	–	2,553
Foreign currency forward contracts	–	1,910	–	1,910
Total assets	424,547	20,433	3,927	448,907
Liabilities				
Derivatives	–	239	–	239
Foreign currency forward contracts	–	2,254	–	2,254
Total liabilities	–	2,493	–	2,493

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

Rationale for classification of assets and liabilities as level 1
As at 30 June 2019, 88% of the equity securities held by the Company were valued using unadjusted quoted prices in active markets and were classified as Level 1 in the fair value hierarchy model.

Rationale for classification of assets and liabilities as level 3
During the year, a new Zimbabwean currency was launched (the Zimbabwe Dollar or ZWL) and Bloomberg commenced pricing all Zimbabwean securities listed on the Zimbabwe stock exchange in ZWL on a daily basis.

As a result of this change, the Investment Manager recommended that the Company change its fair value measurement methodology basis for all of its Zimbabwean securities as set forth below, and the Company adopted the Investment Manager's recommendation.

Effective 26 March 2019 ("Effective Date"), the Investment Manager used the daily ZWL price quoted on the Zimbabwe stock exchange as the starting point for its daily valuation of all Zimbabwean securities. This is indicative or suggestive of Level 1 pricing. However, whilst the Reserve Bank of Zimbabwe publishes an official daily ZWL to USD exchange rate, there are no external quoted exchange rates available. Hence, the Investment Manager has decided to use the Old Mutual Implied Rate (OMIR) as a proxy exchange rate which incorporates a liquidity discount arising from the restriction on repatriating funds out of Zimbabwe. The OMIR is based on a trade weighted average of the Old Mutual securities listed on both the London and South African stock exchanges.

Notes to the Financial Statements

30 June 2019

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as level 3 – continued

As a result of this manual adjustment to the ZWL price quoted on the Zimbabwe stock exchange, in order to derive or translate the local currency fair value into Australian Dollars, the securities have been classified as Level 3 for the purposes of applying the fair value hierarchy model.

The change in valuation methodology was implemented from the Effective Date. Prior to the Effective Date, the Investment Manager applied a 33% discount to the lowest quoted market price for the period from 12 September 2017 to 25 March 2019, to account for the lack of liquidity of the Zimbabwean securities, and booked a fair value adjustment against all of the Company's Zimbabwean security positions, classifying them as Level 3 investments.

Hence, in the 2019 year, whilst the basis for valuation has changed, the securities continue to be classified as Level 3 investments.

Please refer to the 2018 Annual Report for a discussion on how the Zimbabwean securities were valued in the comparative year.

As at 30 June 2019, the Company held (approximately) A$2,666,734 in Zimbabwean securities (based on the adjusted value applied by the Investment Manager), which constituted approximately 0.69% (2018: 0.88%) of the Company's total fair value of investments at 30 June 2019. A summary of the Level 3 fair value applied relative to the "Level 1" equivalent fair value is disclosed in the table below.

NAME OF ZIMBABWEAN SECURITY	FAIR VALUE USED TO VALUE THE SECURITY IN THE ACCOUNTS (A$) (LEVEL 3 VALUE USED)	FAIR VALUE BASED ON THE QUOTED CLOSING MARKET PRICE AT 30 JUNE 2019 (A$) (EQUIVALENT LEVEL 1 VALUE)	% DISCOUNT
Axia Corp	119,075	164,566	28
Econet Wireless Holdings	866,425	1,197,433	28
Cassava Smartech	654,423	904,437	28
Innscor Africa	625,444	864,388	28
Masimba Holdings	120,156	166,061	28
Old Mutual	11,127	15,379	28
Simbisa Brands	270,084	373,266	28
Total	2,666,734	3,685,530	28

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as level 3 – continued

The total of the Level 3 values disclosed on the previous page reconcile to the "30 June 2019" Level 3 value disclosed on page 66 and shows that the value of the investments recorded in the statement of financial position was $1,018,796 lower than the value that would have applied if the 30 June 2019 quoted closing market price for these securities in A$ had been used when preparing the Company's statement of financial position. Below is a table showing the Level 3 fair value movement during the year.

	2019 $	2018 $
Opening balance	**3,926,980**	–
Transfers to Level 3	**–**	3,926,980
Movement during the year	**(1,260,246)**	–
Level 3 closing balance	**2,666,734**	3,926,980

Valuation process

The valuation of each investment that the Company holds is the primary responsibility of the Investment Manager ("PIML"). During the year, the Board of PIML set up a Securities Pricing Committee, which has authority to review and approve valuation methodologies to be applied to determine the fair values of portfolio securities and other assets held by the Company for which no quoted market price is readily available, and to make recommendations to the Board.

The Committee also assesses if an adjustment is required to the quoted market price of any security, if it is considered that the quoted market price is not reasonable (for example securities with a so-called "stale" price). A register is maintained documenting the valuation used and the basis for the valuation of any security or investment that may be manually adjusted or manually priced.

The Securities Pricing Committee meets on a quarterly basis, and as required.

Rationale for classification of assets and liabilities as level 2

There were 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 currency forward contracts are classified as level 2 even though forward points are quoted in an active and liquid market. The forwards themselves are based on interest rate differentials;

(ii) participatory notes are classified as level 2 because they are generally traded Over-The-Counter (OTC) and are often priced in a different currency to the underlying security;

Notes to the Financial Statements

30 June 2019

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as level 2 – continued

(iii) Over-The-Counter (OTC) equity swap contracts are classified as level 2 because the swap contract itself is not listed and therefore there is no directly observable market price; or the price is sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) can be verified directly from Bloomberg or verified using option pricing models. However, the underlying securities referred to in this swap contract do have a directly observable price in an active market; 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.

Note 18. Offsetting of financial assets and financial liabilities

Offsetting and master netting agreements

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

I. there is a legally enforceable right to set-off the financial asset and financial liability; and

II. the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial liability simultaneously.

Note 18. Offsetting of financial assets and financial liabilities – continued

Offsetting and master netting agreements – continued

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

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	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						
2019						
Derivatives	**943**	**–**	**943**	**–**	**–**	**943**
Foreign currency forward contracts	**783**	**(168)**	**615**	**(572)**	**–**	**43**
2018						
Derivatives	2,553	–	2,553	(196)	–	2,357
Foreign currency forward contracts	2,378	(468)	1,910	(667)	–	1,243
Financial liabilities						
2019						
Derivatives	**1,516**	**–**	**1,516**	**–**	**–**	**1,516**
Foreign currency forward contracts	**1,384**	**(168)**	**1,216**	**(572)**	**(530)**	**(114)**
2018						
Derivatives	239	–	239	(196)	(43)	–
Foreign currency forward contracts	2,722	(468)	2,254	(667)	(1,587)	–

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

Notes to the Financial Statements

30 June 2019

Note 19. Investment Manager

The Investment Manager, Platinum Investment Management Limited receives a monthly management fee for investment management services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.1% (2018: 1.1%) per annum of the adjusted portfolio value (which includes cash and deposits).

The Agreement also provides for a performance fee at 15%, at 30 June, of the amount by which the portfolio's annual performance exceeds the return achieved by the Morgan Stanley Capital International All Country World Net Index in $A. Where the portfolio's annual return is less than the index, 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 underperformance from prior periods is carried forward until a performance fee becomes payable.

For the 12 months to 30 June 2019 the performance of the portfolio was negative 0.27%[1] and the performance of the index was 11.33% for the same period. This represents an underperformance of 11.60% against the index. Taking into account, the aggregate underperformance of 9.95% from the prior periods, no performance fee has been accrued. A total aggregate underperformance of 21.55% will need to be made up before a performance fee will be payable. The management fees paid and payable are shown in the table below.

	2019 $	2018 $
Management fees paid	**4,689,730**	5,123,547
Management fees payable	**417,736**	460,537
Total	**5,107,466**	5,584,084

In the event of termination of the Investment Management Agreement (other than where the Company has terminated the agreement for cause), Platinum Investment Management Limited will be entitled to be paid a termination fee equivalent to the management fee of 1.1% and the performance fee (calculated as set forth above) if any, for the period from the first business day of the month in which termination is effective to the date which is the first anniversary of that date.

1. This figure represents the 12 month return of the "Portfolio Value" (as defined in of the Investment Management Agreement), which is defined as the aggregate value of each asset or investment of the Company's portfolio. This differs from the Company's 12 month pre-tax NTA return of 0.01% referred to in the Directors' Report, which also includes non-portfolio and non-investment related assets and liabilities.

Note 19. Investment Manager – continued

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

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

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

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

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

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

(b) Each party is required to provide three months' notice to terminate the Agreement. However, the Company may terminate the Agreement at any time by written notice to the Investment Manager where:

  (i) a receiver, receiver and manager, administrative receiver or similar person is appointed with respect to the assets and undertakings of the Investment Manager;

  (ii) the Investment Manager goes into liquidation;

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

  (iv) the Investment Manager breaches any material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by it under the Agreement and fails to correct such breach or failure within 10 business days of receiving notice in writing from the Company specifying such breach or failure;

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

  (vi) relevant law required the Agreement to terminate.

Notes to the Financial Statements

30 June 2019

Note 20. Remuneration of auditors

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

	2019 $	2018 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**88,055**	85,490
Other services – PricewaterhouseCoopers		
Taxation services	**73,344**	18,378
	161,399	103,868

The increase in fees for taxation services related to advice as to the correct tax treatment of changes to the capital structure of some of the Company's underlying investments that took place during the year.

Note 21. Key management personnel disclosures

Key Management Personnel

Details of remuneration paid to the Non-Executive Directors are outlined in the statement of profit or loss and other comprehensive income and in aggregate terms was $186,150 (2018: $186,150), with $170,000 (2018: $170,000) paid as cash salary and $16,150 (2018: $16,150) paid as superannuation. Refer to the Remuneration Report for further details.

Interests of 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
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Note 22. Related party transactions

Management fees

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

Administration fees

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

Key management personnel

Disclosures relating to key management personnel are set out in Note 21 and the Remuneration Report.

Loans to/from related parties

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

Note 23. Contingent assets, liabilities and commitments to capital expenditure

No contingent assets or liabilities exist at 30 June 2019 and 30 June 2018. The Company has no commitments for uncalled share capital on investments.

Note 24. Events after the reporting period

Apart from the dividend declared as disclosed in Note 10, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. The Company

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

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

Directors' Declaration

30 June 2019

In the Directors' opinion:

(a) the financial statements and notes set out on pages 27 to 75 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date.

(b) there were reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

The Directors have been given the 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

Margaret Towers
Chairperson

Richard Morath
Director

15 August 2019
Sydney

Independent Auditor's Report

to the members of Platinum Capital Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Platinum Capital Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2019
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Directors' declaration.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Independent Auditor's Report

to the members of Platinum Capital Limited

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

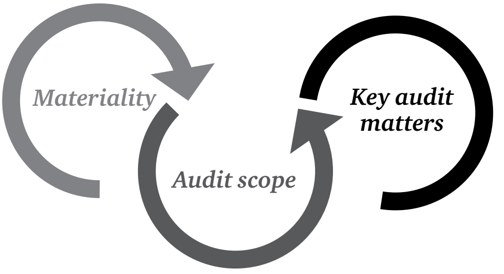
We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, its accounting processes and controls and the industry in which it operates.

Platinum Capital Limited is a listed investment company on the ASX. The Company primarily makes investments in international equities.



MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– For the purpose of our audit we used overall materiality of $2.205 million, which represents approximately 0.5% of the Company's net assets. – We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. – We chose net assets as this is a generally accepted benchmark for listed investment companies. – We utilised a 0.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	– Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. – Our audit approach reflects the nature of the investments held by the Company and the consideration of the work undertaken by third party service providers. The key service providers manage the Company's investments, maintain the accounting records of the Company and provide custodian services.	– Amongst other relevant topics, we communicated the following key audit matters to the Audit, Risk and Compliance Committee: • Investment valuation and existence. – These are further described in the *Key audit matters* section of our report.

Independent Auditor's Report

to the members of Platinum Capital Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Investment valuation and existence *Refer to note 1 (summary of significant accounting policies) and Note 4 and 5 (Financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss)* At 30 June 2019, investments in financial assets of $390.347 million and financial liabilities of $2.732 were comprised primarily of investments in equity securities, participatory notes, futures contracts, OTC ("Over-the-counter") derivatives and foreign currency contracts. The existence and valuation of financial assets and financial liabilities was a key audit matter because financial assets and financial liabilities represent the principal element of the Statement of financial position in the financial statements, accounting for 88.5% of net assets. A discrepancy in the valuation or existence of investments could cause the net assets attributable to unitholders to be materially misstated which could also impact the Company's performance as the valuation of financial assets and financial liabilities is the main driver of movements in the profit of the Company. Some investments are traded in inactive or unquoted markets, meaning the Company needs to make judgements to estimate their fair value as outlined in note 17 to the financial statements. Changes to the estimates, assumptions and/or judgements can result in a material change to the valuation.	Our audit procedures on investment valuation included, amongst others: – For a sample of participatory notes held by the Company, we obtained price data from a third party price vendor for the underlying equity security of the participatory note in local currency. We translated the price into Australian dollars and compared it to the participatory note price used to value investments by the Company. – For a sample of OTC derivatives we recalculated the valuation with assistance from PwC valuation experts. – For a sample of other investments held by the Company, we obtained price data from third party price vendors and compared it to the prices used by the Company. – For those investments held in illiquid markets, where external information supporting valuations was limited, we assessed how management made the fair value estimate of these instruments and reperformed the valuation calculation.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	Our audit procedures over investment existence included, amongst others: – We obtained the most recent System and Organization Controls ("SOC 1") Report issued by the custodian, setting out the controls in place at that service organisation, which included an independent audit opinion over the design and operating effectiveness of those controls. We evaluated the controls over investment existence, the tests undertaken by the auditor and the results of these tests and the auditor's conclusions on the design and operational controls to the extent relevant to our audit of the Company. This report and assurance opinion is comparable to the Australian equivalent, ASAE 3402 issued by the Auditing and Assurance Standards Board. – We obtained confirmations from the custodian of the investment holdings as at 30 June 2019 and sample tested the largest reconciling items by obtaining supporting evidence for the differences. – We assessed the adequacy of the disclosures in Note 1, Note 4, Note 5 and Note 17 to the financial report in light of the requirements of Australian Accounting Standards.

Independent Auditor's Report

to the members of Platinum Capital Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Corporate directory, Shareholder information, Investment Structure, Objectives and Methodology and Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 22 to 25 of the Directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Platinum Capital Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Platinum Capital Limited for the year ended 30 June 2019 included on Platinum Capital Limited's web site. The directors of the Company are responsible for the integrity of Platinum Capital Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

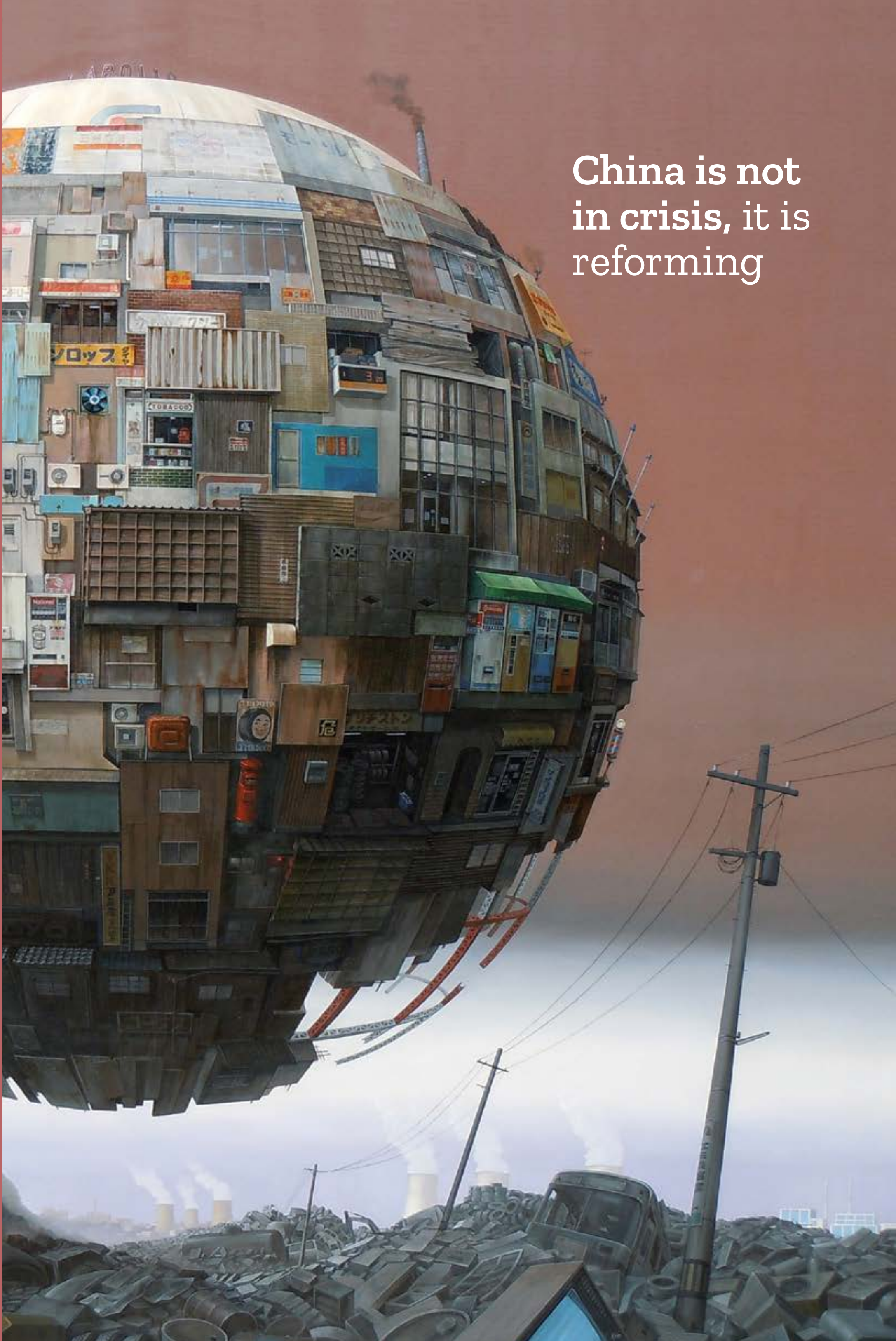
PricewaterhouseCoopers

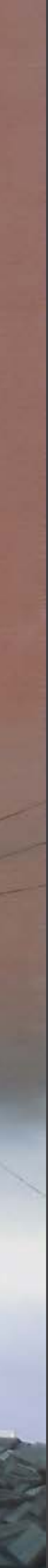
PricewaterhouseCoopers

Simon Cuthbert
Partner

15 August 2019
Sydney

China is not in crisis, it is reforming





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Article

China is not in crisis, it is reforming
By Julian McCormack
Investment Specialist,
Platinum Asset Management

Artwork by

Sashie Masakatsu
http://sal-s.com

The transition from a centrally planned economy to a more market-oriented economy of the world's most populous country is a huge feat, the scale of which we have never seen, and unlikely to ever see again. It hasn't been a smooth journey to be sure, but no economic transformation is.

Preface

The US-China trade war has been a key focus for markets over the past 18 months or so. Its impact has been far-reaching – well beyond the US and China's borders – extending across Asia and Europe.

The global economy has slowed, business and consumer confidence has slumped and investment plans are in disarray[1]. A number of central banks have responded by easing interest rates or changing their stance to an easing bias[2]. Markets have understandably ebbed and flowed on the uncertainty and implications – weakening as the trade impasse dragged on, and strengthening on glimmers of hope of a trade deal.

The market reaction highlights two things: How interconnected the global economy is today; and how important China has become in the global economy.

In a relatively short period, China has become an economic powerhouse. The numbers speak for themselves. China's economic output (gross domestic product) has increased more than 10-fold since the turn of this century from US$1.2 trillion in 2000 to US$13.6 trillion in 2018[3]. It is now the second-largest economy in the world (or the largest if measured on a purchasing power parity basis) and the largest exporter of goods[4].

In a bid to engineer more sustainable economic growth, there has been a concerted effort by the Chinese government to re-orientate its economy away from investment and export-led growth to consumption-driven growth, which is succeeding. It is now the biggest market for many goods, notably automobiles (with sales of 23 million cars in 2018 versus 17 million in the US[5]) and smartphones (454 million handsets shipped in 2017 versus 201 million for North America US[6]). With consumption only representing around 40% of China's GDP[7] (vs. 60%-70% for the more developed economies) and a population of just over 1.4 billion, this growth trajectory still has some way to go. Only 11% of China's population has reached the 'upper-middle class'[8]. With these households being the primary consumer of non-essential items, as this sector grows, so will their demand for lifestyle products such as clothing, entertainment, eating out, travel and technology.

I have been analysing the China market for 30 years, starting back in 1989 when I joined the Bankers Trust global equities team led by Kerr Neilson and managed the BT Pacific Basin Fund. When I look back at how China has changed, I am astounded.

The transition from a centrally planned economy to a more market-oriented economy of the world's most populous country is a huge feat, the scale of which we have never seen, and unlikely to ever see again. It hasn't been a smooth journey to be sure, but no economic transformation is.

From my own personal experience, one of the standout sectors that has undergone the most significant change is technology. It's fascinating how quickly the population has taken up the internet. China is now the largest internet market in the world with around 830 million subscribers (followed by India with 560 million and the US with 293 million). Its internet penetration rate of 58%, while lower than the OECD average, is growing at a rapid rate, and what's more, 98% of the internet is accessed via mobile devices[9]. China will by all accounts be the largest 5G market in the world.

The internet take-up, particularly by the younger generation, has driven considerable growth and investment opportunities in China's e-commerce sector. China accounted for 42% of the global e-commerce market in 2016 – up from less than 1% in 2005 and vs. 24% in the US[10]. Its online presence has helped to rank Chinese consumers among the most sophisticated in the world. Consumers can order a wide variety of goods and services (such as food, books, clothes, taxis and flowers), follow celebrities, send money, book holidays and even meet their life partners – all via apps and pay instantly with their mobile devices – not a credit card in sight.

Progress can however get lost in the mist of short-termism as markets focus on the day-to-day economic releases and geopolitical issues. Not to mention, the misrepresentation and a lack of understanding of the economic data.

It is with this in mind that Julian McCormack, Investment Specialist at Platinum, has written our feature article *"China is not in crisis, it is reforming"*. Julian provides a succinct overview of the *real* state of the Chinese economy and seeks to dispel many of the myths.

China is on a long journey of economic transformation. It has made tremendous progress – and there have been missteps along the way, with more to come no doubt. Amid all the negative market commentary though, it's important to take a step back, digest the progress, appreciate the success (and failures) and prepare for the future – as China's role in the global economy is only set to increase and we expect that investment opportunities will continue to abound.

Andrew Clifford,
Chief Executive Officer & Chief Investment Officer,
Platinum Asset Management
August 2019

China is not in crisis, it is reforming

By Julian McCormack

China is frequently presented as a source of crisis or instability for the global economy[11]. We see little evidence of crisis in China. The picture that is apparent to us is one of imperfection, not one of peril.

At the heart of Chinese catastrophism is the assertion that loan growth in China has been "unsustainable" and China's "economic model is based on debt rising at an ever-increasing rate"[12].


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There has indeed been a rapid increase in lending in the banking system and indebtedness more broadly in China since 2008. Loans outstanding exploded from 2008 to 2018, from 20 trillion Chinese renminbi (US$2.9 trillion) to 140 trillion renminbi (US$20.4 trillion). But you know what else grew a lot? Deposits.

Deposits in the banking system also exploded, leaving a loan to deposit ratio of 77% at the end of 2018 (Australia's banks have a loan to deposit ratio of about 112%[13]). There are off-balance sheet liabilities outside of this, no question, but given the massive deposit base of the Chinese banks, there are about US$6 trillion of deposits in excess of loans. That's about 40% of China's gross domestic product (GDP). There is a lot of slack to absorb bad loans in off-balance sheet activities[14].

The principal reason for the massive deposit base of the Chinese banking system is that Chinese households save a lot. Indeed they are forced to. The erosion of the "iron rice bowl" (a system that guaranteed lifetime employment) and the chains of the *hukou* system, whereby residents are registered to live in a certain area, mean that Chinese households need to save for their retirement (this is changing at the margin[15]). Stringent loan to value requirements mean Chinese home buyers also need to save for large deposits, and migrant workers need to save for the education of their children and their healthcare needs[16]. The result is household savings rates higher than any other country globally: Chinese households save approximately 35% of their disposable income on average[17]. And with an illiberal capital account, these savings largely get trapped in the banking system.

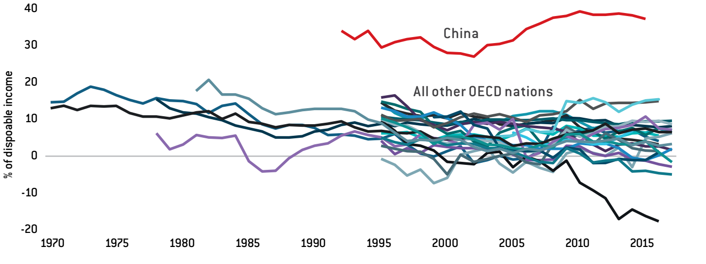
To provide a sense of the unfairness of the current situation under the *hukou* system, allow me to demonstrate by example. I was born in Perth, but grew up in Sydney after my dad moved the family for work. Our family would have had no free access to state education or healthcare if we had made an equivalent move in China, say from Datong to Shanghai. But local Shanghai residents, local *hukou* holders, do have access to state-provided healthcare and educational services[18]. Hence the need for savings on the part of the hundreds of millions of non-*hukou* holders.

China has generated a current account surplus for 25 years. It has relatively little foreign currency debt[19] as a result. Interestingly, 2018 has seen China's current account surplus shrink and it posted a deficit in early 2018, albeit for the full year it still posted a small current account surplus[20]. This is exactly what should be expected from an economy moving from savings and investment to boost domestic consumption as a share of its economy.

China's aggregate debt to GDP is high for a developing country but relatively moderate for a developed country, at approximately 250% of GDP. Given its intermediate status as an emerging middle income country – this does not strike us as alarming.

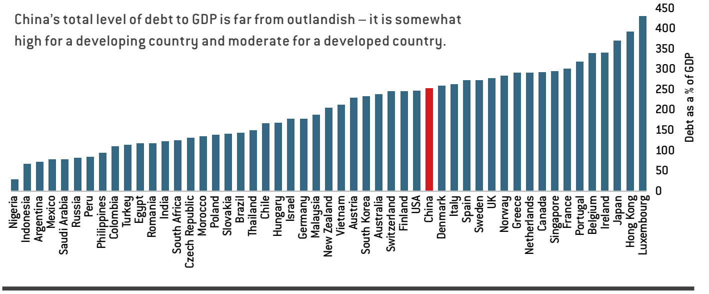
For a good framework for understanding China's debt, please see the work of Yukon Huang – his book *Cracking the China Conundrum*, for instance[21].

HOUSEHOLD SAVINGS RATES BY COUNTRY



Source: OECD, February 2019

CHINESE VS. OTHERS' DEBT TO GDP



Source: McKinsey, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/visualizing-global-debt. Data in US$ as at June quarter 2017. Includes household debt, non-financial corporate debt and government debt.

More alarming is the rate of change of total debt in China. Clearly – credit creation peaking at over 30% p.a. and exceeding 20% p.a. for years in an economy growing at a real (i.e. inflation adjusted) rate of ~10% is too fast.

This occurred from 2009 to 2011. But note that Chinese credit creation has been below 15% since 2012, and over much of the period since 2012 has been roughly in line with nominal GDP[22]. Or stated another way, total debt to GDP in the Chinese economy has not meaningfully increased in years[23]. This was China's Quantitative Easing and Zero Interest Rate Policy and Negative Interest Rate Policy – but it was conducted via the banking system, rather than via central bank purchases of treasury securities[24]. And it's over.

However, it's easy to be sceptical – surely the explosion of credit continued in other areas outside of the banking system, amid shadow banks and other mysterious channels, and is somehow hidden from official statistics, this being China after all?

There is no evidence of this. Money supply growth in recent years of approximately 8% p.a. in official statistics has been lower than nominal GDP and this is backed up by M2[25] proxies such as one measured by investment bank China International Capital Corporation (CICC)[26]. And there's little evidence of a general boom in asset prices of the sort that would be expected in an economy replete with Minsky-style Ponzi financing – credit does not simply disappear from an economy, it manifests itself in asset price or general price inflation[27]. Chinese consumer price inflation has averaged approximately 2% in recent years[28]. So let's look at asset prices in China.

We would like to invite you to play a guessing game. Please guess which country saw the highest real property price appreciation out of China, Belgium, the USA, Australia and New Zealand, from 1999 to the last available observation point in early 2017[29]. Note that the period encompasses the birth of the national market in residential property in China in 1999, until the imposition of property tax, resale and lending restrictions directed at property investment activity in 2017.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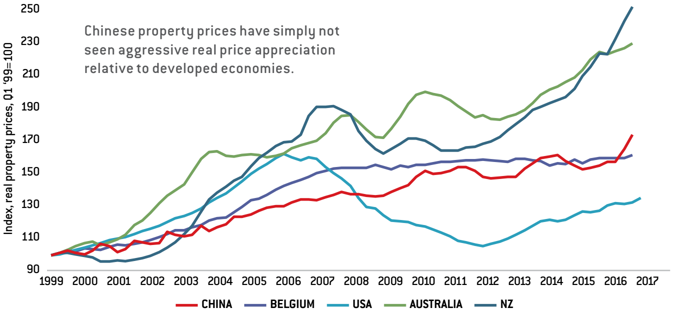
Try to guess where China sits, versus developed world peers? The answer is right in the middle.

Real property prices in Belgium have performed roughly in line with Chinese property prices over the last 20 years – with Australia and New Zealand property prices well in excess of this level and the USA considerably below.

CHINA'S PROPERTY BOOM – CHINA VS. DEVELOPED MARKETS



Source: The Economist, https://infographics.economist.com/2017/HPI/ ; and also see https://www.economist.com/graphic-detail/2018/08/09/global-cities-house-price-index for Shanghai versus other global cities, sourced February 2019, latest available data.

Further, when comparing Chinese property prices with various countries in the emerging world we find that Chinese property prices have performed far less strongly than in India or Brazil over 10 years (our data set is shorter for emerging markets). Over the last 10 years, real property prices in China have performed in line with Singapore property prices[30].

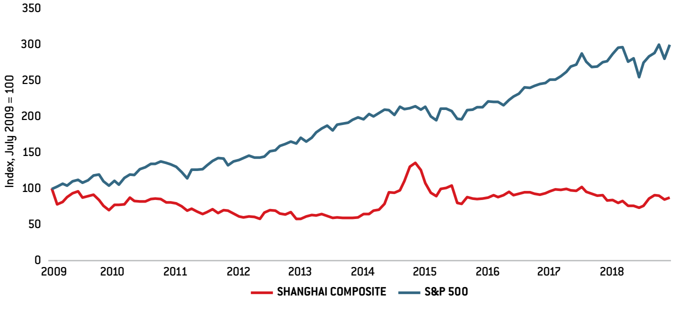
China has had a huge property boom. That seems natural in a place that had no property market 20 years ago. On our analysis, around 100 million dwellings have been built in China since 1999. Please search for yourself to see what pre-1999 housing in China looked like. It wasn't good, with shared kitchen and bathroom facilities among multiple families commonplace.

So, there has been a construction boom, driven by newly available modern housing, plus growing incomes. But we just don't have anything like the excesses or fragility implied by most breathless reporting of Chinese property prices.

More broadly, China does not seem to be in the grip of an asset price bubble. Actually, quite the reverse – equity prices have gone nowhere for over 10 years. This is an immature market, dominated by retail investors, with low levels of institutional ownership and little international participation. There are wild swings, with stasis for long periods, followed by wild booms, then crashes, albeit to higher lows[31].

China has gone from hosting among the most expensive equity markets in the world, to among the cheapest[32]. The S&P 500 Index has outperformed the Shanghai Composite Index by 200% over the last 10 years[33].

CHINA'S EQUITY MARKETS HAVE GONE NOWHERE FOR 10 YEARS

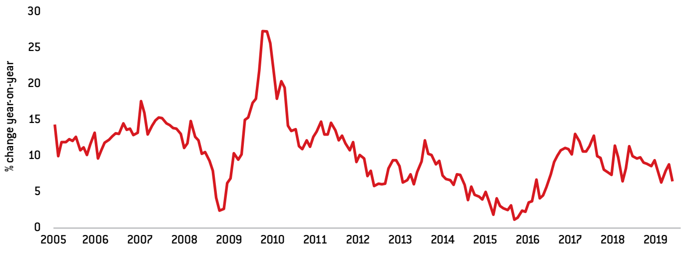


Source: Bloomberg. Monthly data to June 2019.

This has none of the hallmarks of a bubble. This looks much more like a bubble that has burst. So are we sliding into depression, marked by debt deflation in the mould of the USA in the 1930s...?

It does not look like it, based on the Li Keqiang Index – a composite of growth in lending, power generation and rail freight movements expressed as an index. It is named after Li Keqiang, China's current Premier, who cited these measures as far better indicators of China's economy than 'man-made' GDP numbers[34].

THE LI KEQIANG INDEX: NOT SPECTACULAR, BUT SOLID



Source: Bloomberg. Data to May 2019. The LKI is the average of power demand growth, rail freight movement growth and credit growth. See also https://www.economist.com/asia/2010/12/09/keqiang-ker-ching

Based on this measure, we are at slightly below the average levels of growth witnessed over the last 15 years and well above the recent trough in 2015[35]. This does not look like a collapse. Indeed it looks more like a slow recovery from a protracted industrial recession in the wake of a crash.

So – China has an excess savings and debt problem, with debt having increased dramatically, likely leading to misallocation of capital, but leaving debt no higher than most industrialised economies and with massively higher savings rates and somewhat faster growth rates. There is little evidence of an asset price bubble in comparison with other developed and developing nations and finally, industrial activity, while moderating, does not appear anything more than in a mild downturn.

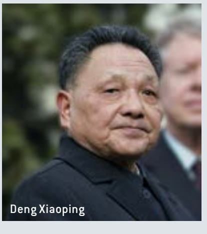
However, not all is “steady as she goes” in China. Xi Jinping’s vision for China is a significant break from previous administrations. To provide a sense of how significant, it’s worth setting out some scaffolding for understanding the Chinese economy.

The place to start for this is 1978 and the accession to power of Deng Xiaoping, following the inauspicious years in power of Hua Guofeng who succeeded Mao Zedong upon his death in 1976[36].

The earthy, profane, pragmatic Deng is one of the most important human beings to have lived in the 20th century. He established the fundamental underpinnings of China's hybrid market-socialist economy, achieving the following:

- The establishment of special economic zones which became the foundation of China's export-led development model
- The de-collectivisation of farm land
- The allowance of private ownership of farm land
- The establishment of a de-centralised model of economic development with provincial level governments competing for capital and party officials competing for advancement on the basis of largely economic measures
- Support for private enterprise in his iconic Southern Tour[37].

It is no exaggeration to say that thanks to Deng, modern China emerged. He was also responsible for repression and death, notably in the crushing of the Tiananmen demonstrations of 1989. We are not dealing with a saint.


Deng Xiaoping

Deng's aphorisms reveal much of the man and his thinking about the world:

"On economic matters, relaxed controls; for political matters, tight controls."[38]

"It doesn't matter if the cat is black or yellow, as long as it can catch mice, it is a good cat."[39]

"Cross the river by feeling for stones."[40]

The design of China's economy in the Deng Xiaoping model is far from monolithic. The 34 provincial level governments and lower levels of administration, which control 70-80% of government spending in China, each compete with each other, with Party officials promoted in a vaguely meritocratic fashion, or perhaps seeking at least not to disqualify themselves from advancement[41]. Infrastructure, like motherhood or democracy, sounds like an unadulterated positive.

Dinny McMahon, who wrote an excellent survey of the Chinese economy and the challenges it faces, frames this differently. Instead of infrastructure, think of 'public works' – this may convey some of the waste and self-aggrandisement that occurs on the public purse. A Chinese aphorism captures the spirit of this system: "Heaven is high and the Emperor far away"[42]. While Beijing rules, the provinces implement policy with quite some latitude.

That said, successful ideas or methods generated at lower levels of government, particularly those conforming to Beijing's wishes, *are* implemented elsewhere. Advancement for Party officials relies on success across multiple jurisdictions. In short – this is a competitive, decentralised system, albeit administered from a strong centre[43].

China's hybrid system of market signals, plus state ownership of assets, plus the transference of usage rights of state-owned assets, incentivises productivity *and* corruption. As long as production outcomes are being met, with applicable safety, environmental and other guidelines met, the state tolerates the capture of rents by agents in the system. In return, China has enjoyed a massive boom in productive capacity for a generation[44].

However, at higher levels of capital stock to GDP, this system is inappropriate. China needs better – not just more activity. And herein lies the need for reform.

And then along comes Xi Jinping. Apparently Xi was selected as a 'safe pair of hands', a centrist candidate spanning the middle ground between liberal reformers and Maoist, old guard hold outs[45]. So much for that.

The first moves of the administration – the corruption crackdown (including a suspended death sentence of the wife of former Chinese politician Bo Xilai[46]) and an emphasis on "beautiful China" and the "Chinese dream" were pure populism[47]. This is a populist leader, happy to tread on the toes of elites, who purged the Party early and established a centralisation of power not seen since Mao – in formal terms (it's arguable that Deng had much more power than Xi, and did not need the titles to prove it[48]).

So, perhaps Xi is just a megalomaniac bent upon the acquisition of power without scruples. Or maybe something else is going on.

While the overwhelming impression when talking to China strategists is one of disappointment in the Xi administration's reform efforts, there has been a great deal of reform undertaken. A couple of these reforms in particular ought to be stressed. The first is the huge success of industry consolidation and capacity closure in Chinese heavy industry. China has done this sort of thing before – for instance before accession to the World Trade Organisation (WTO) in 2001[49]. But nonetheless, the implementation of swingeing cuts to capacity in industrial stalwart industries such as steel (150 million tonnes per annum capacity cut) and coal (800 million tonnes per annum capacity closed)[50], while eliminating credit provision to unviable firms has been impressive.

Consider the price recovery of aluminium, copper, steel and coal since 2015, to name but a few examples of commodity prices that foretold of deflation from 2011 to 2015, but have since recovered markedly. The world dodged a bullet in the form of deflationary capacity growth funded by Chinese policy banks.

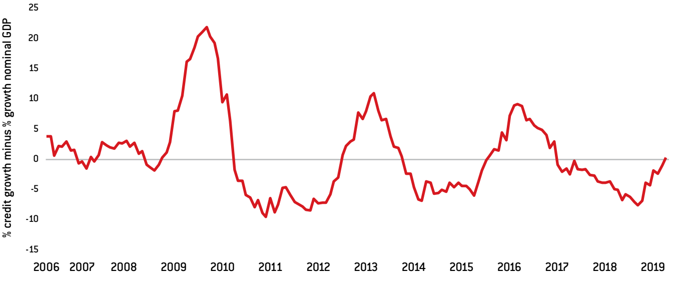
It ought to be noted that rather than opening the spigots of the banking system to lend to heavy industry, as has occurred in the past – notably in the response to the global financial crisis (GFC) when the banking system was the core of a 4 trillion yuan stimulus[51] – the government is targeting monetary stimulus and fiscal stimulus via liquidity injections and effective tax cuts.

Fiscal/monetary reform (tightening)[52]	Offsetting stimulus
Corruption crackdown	Reserve ratio requirements lowered
Environmental standards enforcement	Interbank liquidity injections
Capacity closure and industry consolidation	Introduction of Targeted Medium-term Lending Facilities (TMLF)
Deleveraging in materials sector	Increase in the tax-free threshold
Curtailing lending to local governments	Allowance of tax deductions for healthcare, education and elderly care expenses
Restriction of capital account (preventing of money leaving China)	Tax cuts for small-to-medium enterprises
Enforced use of bond markets by local governments	Incentives for construction of rental properties on collectively-owned land
Crackdown on informal lending channels: Trust structures, peer-to-peer lending	Limited infrastructure projects (notable acceleration in December 2018)
Tax and loan to value restrictions in property markets	

This is a far more market-based series of stimulus measures than has been seen previously in China. There has latterly been an increase in the approval of infrastructure projects, with US$160 billion in December 2018, but this is small compared to the 4 trillion yuan (approximately US$635 billion) of the post-GFC stimulus.

To June 2019, electricity grid investment was down 20% for the year-to-date versus a year ago, and total fixed asset investment is growing at approximately 4% p.a. in 2019 (slower than nominal GDP), versus rates of over 20% p.a. in earlier years[53]. Credit growth in China has been slower than nominal GDP growth since March 2017 until June 2019 – in other words the 'credit impulse' in the economy has only just turned positive[54].

CHINA'S CREDIT IMPULSE JUST KICKING IN



Source: Bloomberg. Monthly data to June 2019.
Year-on-year difference of the 12-month rolling sum of China credit increment over the four-quarter rolling sum of nominal GDP.

While lending growth and money supply growth have been muted in recent years in China, one area of the economy has seen a huge leap in credit availability – Chinese households.

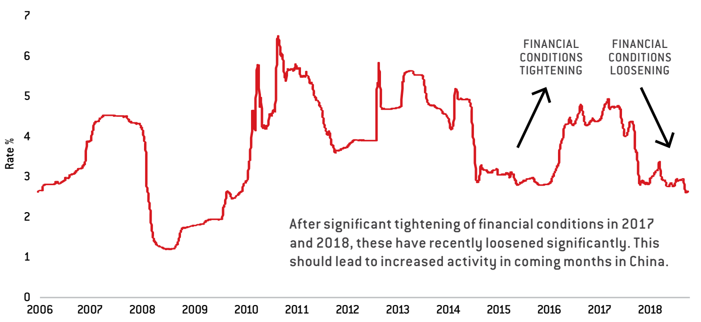
As credit availability was curtailed to heavy industry and local governments, credit to households exploded.

China's household debt-to-GDP ratio increased from 18% in 2008 to 49% at the end of 2017[55]. And note – this has been an area of focus for Chinese regulators in the last two years or so, with peer-to-peer lending, trust structures and other non-formal lending channels coming under particular scrutiny[56].

External events conspired to see that China's reforms and credit restraints resulted in China being excessively tight in terms of both monetary and fiscal policy in 2018.

Chinese authorities maintained relatively tight policy through the first half of 2018: for instance significant efforts to lower the Shanghai Interbank Offered Rate, or Shibor, via liquidity injections were not apparent until June 2018[57].

SHIBOR - LOOSENING APPARENT



Source: Bloomberg. Data to 22 July 2019.

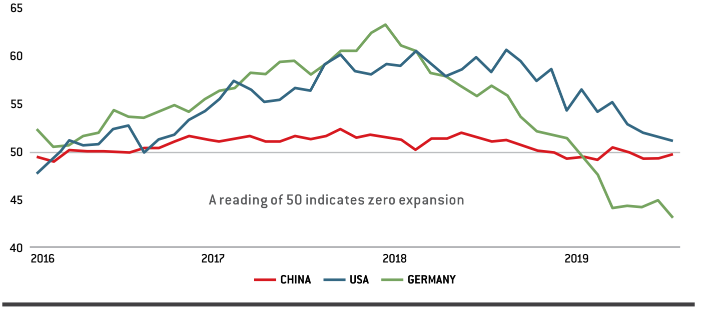
As such, it would appear that the Chinese did not take the threat of a global slowdown in trade seriously – and to be fair they were not alone.

The trade war between the world's two largest economies affects everyone in a world where trade equates to 70% of GDP[58] and supply lines are incredibly complex.

Many firms have thousands, or tens of thousands, of suppliers. When you try to bludgeon the great entrepôt economy of the world – you affect everyone.

Clearly the threat of tariffs has affected China – its Purchasing Managers' Index (PMI), which is a good indicator of the economic health of the manufacturing sector, sagged from slightly positive to negative. But German PMIs have suffered far more, falling from the low 60s to the low 40s, while manufacturing confidence has softened markedly in the US also, albeit its PMI remains in mild expansion territory[59]. The weakness has helped drag global manufacturing PMIs into contraction (below 50)[60]. Trade wars affect everyone.

TRADE WARS HURT EVERYONE: US, CHINA & GERMANY MANUFACTURING PMIs



Source: FactSet. Data to July 2019.

To understand why, imagine you have to run supply lines for a firm in Hamburg, Seattle or Guangzhou and you don't know what rate of tariff will apply to what product in two months' time. If you believe tariffs will rise, you should order ahead of them and build inventories. If you think they'll fall, you should run inventories down. This is a staggering level of uncertainty weighing on supply lines globally.

Now imagine being the Chief Financial Officer of the same firm – should you abandon current, highly efficient supply lines in China and invest in capacity in Vietnam, Cambodia or Bangladesh? You don't know if tariffs are permanent or a bargaining chip which will disappear soon, making long-term investment decisions difficult as well.

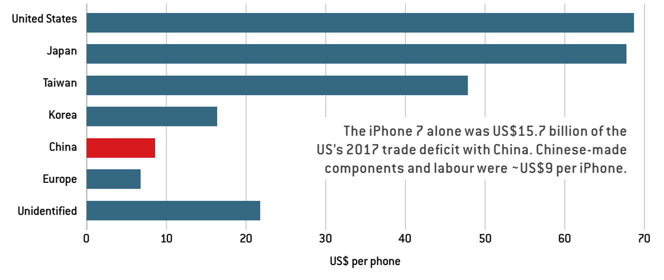
And we really must understand what is meant by taxing Chinese exports. We stated earlier this was an entrepôt economy, by which we meant that China imports goods, assembles or modifies them, and then ships them back out.

As a result, net exports are a mere 6% of Chinese GDP[61] – while total trade exposure (imports plus exports) is 38% of GDP[62]. This means that taxing Chinese exports is effectively taxing global supply lines.

Take for example the iPhone. We have good data for the iPhone 7. This costs about US$240 to make in China and was exported at cost to the US or wherever it ended up, to be sold for US$700 or so. Of the US$240 that would be subject to a tariff – only US$9 per phone is value that originates in China[63]. US$9… out of US$240.

TARIFFS: TAXING COMPLEX SUPPLY LINES

SHARE OF IPHONE 7 FACTORY COST



Source: Dedrick Kraemer Linden, "We estimate China only makes $8.46 from an iPhone – and that's why Trump's trade war is futile", https://theconversation.com/we-estimate-china-only-makes-8-46-from-an-iphone-and-thats-why-trumps-trade-war-is-futile-99258; Allison Shrager, "The iPhone alone accounts for $15.7 billion of the US trade deficit with China", https://qz.com/1234437/the-iphone-alone-accounts-for-16-billion-of-the-us-trade-deficit-with-china/

This is a very high margin product with a very complicated supply chain, so it's not representative of all of the trade imbalance between the US and China. But it demonstrates a point by example. When you tax the exports of the world's great entrepôt economy, you are taxing global supply lines.

But, the tariffs have 'supposedly' worked.


塩

Many seem to think this. Perhaps a better interpretation is that tariffs have impeded global growth, impinged on US corporates' profits and/or forced US consumers to pay more for products in order to harm an economy that has not grown exports to GDP for years. This seems like madness.

But, in true 'Trumpian' fashion, there's an element of luck and a grain of truth here. The tariffs and overall trade impact have impacted China at an awkward moment.

As mentioned previously – Chinese authorities maintained relatively tight monetary and unsupportive fiscal policies throughout most of 2018, then had to play catch-up when it became clear that the tariffs were actually going to happen.

We ought to be careful to avoid the image of Chinese monetary authorities lurching from tight to loose to tight policy like so many drunken sailors. Rather, we'd like to leave you with an alternative image... one of an enormous ship, cumbersome and moving with great momentum. Nearly a decade ago, this ship was on a dramatically different course, in response to collapsing global demand. For the last five years and more, this ship has been cutting a far more sustainable course, of gradual monetary and fiscal tightening. But at times the ship will over-correct, and when it does it must be steered back on course. China ended up over-tightening in 2018 and its tiller has shifted back to loosening now.

The reason all of this matters is that cyclical, industrial assets are remarkably cheap – globally, not just in China. Many cyclical companies on various measures are roughly as cheap as they have ever been. So it matters if the world's largest economy measured in purchasing power parity is not in crisis and is now stimulating.

It may matter a great deal.

1 OECD Data.

2 Source: Bloomberg https://www.bloomberg.com/news/articles/2019-07-17/the-only-way-is-down-for-central-bankers-already-at-peak-rates

3 Source: The World Bank.

4 Source: CIA World Factbook.

5 Source: VDA and https://www.best-selling-cars.com/international/2018-full-year-international-worldwide-car-sales/

6 Source: https://www.gfk.com/nl/insights/press-release/smartphone-unit-sales-rose-6-in-north-america-in-4q17-highest-growth-in-two-years/

7 Source: CEIC Data, as at December 2018 https://www.ceicdata.com/en/indicator/china/private-consumption--of-nominal-gdp

8 Source: CSIS China Power Project, Pew Research Centre as at 2013. Upper-middle class is defined as those who spend between US$20-US$50 per day https://chinapower.csis.org/china-middle-class/

9 Source: Statista, March 2019 https://www.statista.com/statistics/262966/number-of-internet-users-in-selected-countries/

10 Source: McKinsey Global Institute https://www.mckinsey.com/featured-insights/china/digital-china-powering-the-economy-to-global-competitiveness

11 For an example please see https://www.bloomberg.com/news/articles/2019-01-17/forget-the-trade-war-china-is-already-in-crisis. A Google search will yield dozens of such pieces.

12 See for example http://www.quorumcentre.com/reports/chinas-economic-model-is-unsustainable-and-heading-for-disaster-and-could-lead-to-global-economic-instability/

13 https://www.apra.gov.au/publications/monthly-banking-statistics. Chinese data sourced under licence from CEIC.

14 See https://www.moodys.com/research/Moodys-China-banking-system-outlook-stable-but-high-economy-wide--PR_389416 for an outlook on the Chinese banking system.

15 https://www.economist.com/leaders/2012/08/11/social-security-with-chinese-characteristics; https://www.economist.com/china/2014/04/05/paying-for-the-grey

16 https://www.businessinsider.com.au/3-charts-that-show-fears-of-a-chinese-property-market-collapse-may-be-overblown-2018-3

17 https://data.oecd.org/hha/household-savings.htm

18 For more on the hukou system, see for example https://www.economist.com/china/2018/05/03/in-chinas-cities-young-people-with-rural-ties-are-angry

19 http://www.xinhuanet.com/english/2018-06/29/c_137290656.htm

20 https://www.economist.com/finance-and-economics/2018/05/17/chinas-vanished-current-account-surplus-will-change-the-world-economy

21 Yukon Huang, "*Cracking the China Conundrum, Why Conventional Economic Wisdom is Wrong*", Oxford University Press, London, 2017. See also, McKinsey, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/visualizing-global-debt

22 Data from FactSet.

23 See also https://www.rba.gov.au/publications/bulletin/2018/dec/chinas-supply-side-structural-reform.html

24 For a discussion of this see Dinny McMahon, "*China's Great Wall of Debt: Shadow Banks, Ghost Cities, Massive Loans and the End of the Chinese Miracle*", Little, Brown, London, 2018.

25 M2 is defined as coins and notes in circulation and other money equivalents that are easily converted to cash plus short-term time deposits in banks and 24-hour money market funds.

26 Official data from FactSet. CICC data provided in regular notes provided to Platinum Investment Management Limited.

27 See Hyman P Minsky, "*Stabilising an Unstable Economy*", McGraw Hill, New York, 1976; and Ray Dalio, "*A Template for Understanding Big Debt Crises*", 2018, https://www.principles.com/big-debt-crises/

28 Data from FactSet.

29 For the data underlying the discussion of relative real property price appreciation see The Economist, https://infographics.economist.com/2017/HPI/ ; and also see https://www.economist.com/graphic-detail/2018/08/09/global-cities-house-price-index for Shanghai versus other global cities.

30 Ibid.

31 Market data from FactSet.

32 Based on PE multiples of MSCI indices, provided by Credit Suisse.

33 Market data from FactSet.

34 https://www.economist.com/asia/2010/12/09/keqiang-ker-ching

35 Data from Bloomberg.

36 https://www.independent.co.uk/news/obituaries/hua-guofeng-successor-to-chairman-mao-904010.html

37 For more on this Dinny McMahon, op cit; Huang, op cit; George Magnus, "*Red Flags: Why Xi's China is in Jeopardy*", Yale University Press, New Haven, 2018; and Richard McGregor, "*The Party, The Secret World of China's Communist Rulers*", Allen Lane, London, 2010.

38 McGregor, op cit, p95.

39 Magnus, op cit, p63.

40 McGregor, op cit, p471. It was actually fellow Party official Chen who coined this lovely image – Deng however embraced and popularised it.

41 Huang, op cit; Yongsheng Zhang, "*How will China's central–local governmental relationships evolve? An analytical framework and its implications*" http://press-files.anu.edu.au/downloads/press/p95681/pdf/ch048.pdf

42 McMahon, op cit, p49. There are several versions of the same saying – e.g. see https://foreignpolicy.com/2014/11/11/the-mountains-are-high-and-the-emperor-is-far-away/

43 Huang, op cit; McGregor, op cit; McMahon, op cit.

44 Huang, op cit.

45 Magnus, op cit.

46 https://www.theguardian.com/world/2015/dec/14/wife-of-disgraced-china-party-chief-bo-xilai-given-life-for-killing-briton

47 My interpretation of work by Yuxing Zhang & David Murphy at China Reality Research, e.g. "*Macro: Beautiful China: How China came to promise a green future*", 7 May 2018.

48 Here I am borrowing the view of an analyst at CICC, expressed in a call on 14 January 2019.

49 See Magnus, op cit, pp76-79.

50 Haixu Qiu, "*A beautiful new era? Best investment themes in 2018*", CLSA, 2 January 2018.

51 https://treasury.gov.au/publication/chinese-macroeconomic-management-through-the-crisis-and-beyond/2011-01-chinese-macroeconomic-management-through-the-crisis-and-beyond/4-chinas-stimulus-package

52 CLSA analysis provided in February 2019 to Platinum Investment Management Limited, https://www.scmp.com/business/article/2174886/american-dream-home-ownership-quickly-swept-through-china-was-it-too-much; https://www.economist.com/china/2018/12/01/why-only-2-of-chinese-pay-any-income-tax

53 Data from Bloomberg.

54 ibid.

55 https://www.caixinglobal.com/2018-11-06/chart-of-the-day-chinas-growing-household-debt-101343512.html

56 See for instance https://www.bloomberg.com/opinion/articles/2018-11-30/china-s-p2p-purge-underscores-shadow-banking-challenge

57 Data from FactSet.

58 https://data.worldbank.org/indicator/ne.trd.gnfs.zs

59 PMI data from FactSet, Markit and Deutsche Bank.

60 Data from Bloomberg.

61 https://atlas.media.mit.edu/en/profile/country/chn/#Trade_Balance; https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/CHN

62 https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=CN

63 Dedrick Kraemer Linden, "*We estimate China only makes $8.46 from an iPhone – and that's why Trump's trade war is futile*", https://theconversation.com/we-estimate-china-only-makes-8-46-from-an-iphone-and-thats-why-trumps-trade-war-is-futile-99258; Allison Shrager, "*The iPhone alone accounts for $15.7 billion of the US trade deficit with China*", https://qz.com/1234437/the-iphone-alone-accounts-for-16-billion-of-the-us-trade-deficit-with-china/