

PLATINUM INTERNATIONAL FUND



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PERFORMANCE

The strong momentum seen in markets late last year continued into the first quarter. This was all the more impressive when evaluated against a backdrop of high and rising oil and other raw material input costs, and rising interest rates. These burdens were evidently offset by the belief that the gathering pace of growth in Japan, Asia and Europe reduces the world's dependence on US growth.

Again it was the emerging markets that led the field with the BRICs (Brazil, Russia, India and China) each up by between 13% to 20% in local currency. The developed western markets rose by 3% to 6% while the relatively weak performers were Thailand, Malaysia, Taiwan and Korea which barely moved in the three months to March. As the A\$ was generally weak, these moves translated into an extra 3% to 5% on returns when translated into A\$.

The Fund managed to almost match the MSCI over the last three and 12 months, notwithstanding having an average net long exposure of around 60%. Helping this performance was gathering enthusiasm for some of our large somnolent holdings that were bought over the previous 14 to 20 months; stocks like Alcatel, News Corp, Credit Agricole and Samsung Corp. Some of those bought more recently were also very agreeable with rises of around 50% within six months; purchases like Canon, Nintendo and Mitsubishi Heavy Industries (MHI). Clearly there were offsets too, including having a 25% exposure to the A\$ which was weak against most comers in the last three months. Though our target is to outperform the MSCI by a considerable margin over time, we are relatively satisfied with matching it over the last 12 months, given our less than full exposure to general market risk. Over the period the Fund rose by 29.9%, versus the MSCI's 29.9%.

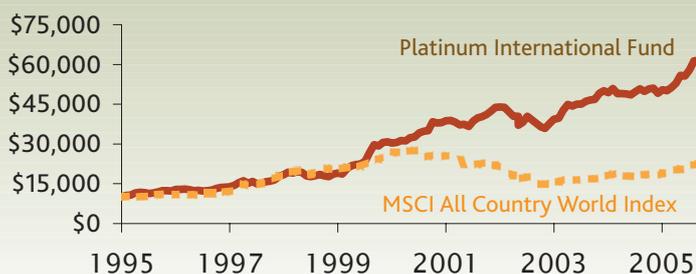
MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
MATERIALS	16%	44%
ENERGY	13%	39%
INDUSTRIALS	12%	32%
FINANCIALS	11%	36%
UTILITIES	9%	29%
CONSUMER DISCRETIONARY	9%	22%
TELECOMMUNICATIONS	9%	14%
INFORMATION TECHNOLOGY	8%	29%
CONSUMER STAPLES	7%	19%
HEALTH CARE	6%	23%

Source: Factset

VALUE OF \$10,000 INVESTED SINCE INCEPTION

1 MAY 1995 TO 31 MARCH 2006



Source: Platinum and Factset. Refer to Note 2, page 7.

CURRENCY

As noted above, this was a quarter to have no exposure to the A\$, which skidded by between 2.7% and 4.8% against the US\$, the yen and the euro. Late in the period, as the dynamic hedgers swung into action we chose to increase our A\$ holdings to around 30%, taking the view that, despite our high external debt, continued world growth and the prospect of higher domestic interest rates, this should result in a strengthening of the A\$, at least versus the US\$. Thus we now have no exposure to the US\$ and hold slightly more yen than underlying assets.

SHORTING

With such strong markets, shorting has been no help at all. Losses from equity shorting have been partially offset by the shorts on the Japanese Government Bonds.

CHANGES TO THE PORTFOLIO

Highly volatile prices certainly test one's agility as strong moves rapidly change the relative attraction of holdings within a portfolio. We used the surge in prices in Japan to extinguish holdings in Takeda (drugs), Toyota Motor Corp, Millea (general insurance), Mitsubishi Corp (trading house with large exposure to energy) and reduced positions in Canon, Nintendo and Dai Nippon Printing. In their stead we added to positions in Hitachi (heavy electrical machinery and electronics), Mitsubishi Chemical (chemicals and drugs), Mitsui Corp (trading house with participations in iron ore deposits and energy), TDK (magnetic heads and passive components), Sharp (the world's leading TFT TV maker and solar cell producer), SMC (the world's largest producer of pneumatic controls), and the regional banks. We also removed Samsung Electronics, the

DISPOSITION OF ASSETS		
REGION	MAR 2006	DEC 2005
JAPAN *	29%	33%
WESTERN EUROPE	25%	24%
NORTH AMERICA	22%	19%
EMERGING MARKETS	14%	14%
AUSTRALIA	1%	0%
CASH	9%	10%
SHORTS	33%	34%

* The Fund also has a 9% short position in Japanese Gov't Bonds

Source: Platinum

power providers in India; CESC and Tata Power, and the large drug producers GlaxoSmithKline and Schering AG.

After a tempestuous relationship of adding to and reducing our position - to good effect - we finally exited AMD which at three times our first entry cost, is now priced to reflect its ability to comprehensibly compete against Intel. {For further information, please refer to the Platinum International Technology Fund report on page 30}. Failed investments such as Livedoor and Premiere AG are being sold at considerable loss.

For those of you who become anxious about our errors we can only reiterate that, at its core, equity investment is risky and for this reason we manage funds with a diversified portfolio comprising over 100 holdings, of which the top 15 represent around 30% of long positions and the top 30, nearly 50%. The most compact measure of the soundness of our judgement lies in our three to five year returns (see page 2).

The above sales allowed us to introduce the likes of Oracle (databases and enterprise resource planning applications), LG Corp (the Korean conglomerate of electronics, consumer goods and related activities) and Pernod Ricard (the world's second largest liquor and wine producer). We also added to International Paper, Liberty Media, our gold shares and other laggards.

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	MAR 2006	DEC 2005
CYCLICALS/MANUFACTURING	TOYOTA INDUSTRIES, SCHINDLER, SIEMENS, INTERNATIONAL PAPER	31%	29%
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE	15%	16%
TECHNOLOGY/HARDWARE	AGERE, INFINEON TECH, SAMSUNG, SUN MICROSYSTEMS	11%	11%
RETAIL/SERVICES/LOGISTICS	HORNBACK, CARREFOUR, MITSUBISHI CORP	8%	9%
CONSUMER BRANDS	HENKEL, LOTTE, BEIERSDORF, PERNOD RICARD	7%	5%
SOFTWARE/MEDIA	NEWS CORP, LIBERTY MEDIA, NINTENDO	6%	6%
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	5%	5%
TELECOMS	ALCATEL, SK TELECOM, ERICSSON	5%	5%
MEDICAL	PFIZER, MERCK & CO	3%	4%

Source: Platinum

COMMENTARY

When we first presented the case for investing in India several years ago, some investors expressed dismay that we were not paying attention to the more obvious candidate, China. Interestingly, in the intervening period India has way outstripped China in stock market terms and the investment story for India is now well told. With this in mind, our focus is back on China.

To state the obvious, China has followed a very different path to modernisation than India. The latter is a democracy that has erected every conceivable barrier to retard the process starting with Mrs Gandhi's licensing raj of the 1970s, left-leaning state governments, a fondness for litigious actions, and social values that often placed materialism at the bottom of priorities! By contrast, following the visit of Deng Xiaoping to Southern China in 1992, the deconstruction of central planning unleashed perhaps the most remarkable episode of raw capitalism ever seen. However, the residual benefits of a command economy were mobilised to the full to facilitate the growth of trade and the enticement of foreign know-how and capital. Having started as subordinate partners, opportunities for foreign firms gradually broadened as internal competition at both the provincial and city government levels enabled them to parlay majority ownership and managerial control. It was, however, not without

the surrender of important technology which was seldom licensed and mostly purloined. For example, Lucent had little choice but to accept the reality of counterfeits if they wished to deepen their access to the burgeoning domestic market.

The competition for foreign investment among the provinces is highlighted by the pro-active mentality of the authorities with licensing, but above all, in providing core infrastructure such as land, water, power, ports and roads ahead of immediate need. It was this anticipatory expenditure and the availability of vast pools of labour (facing limited choice and very limited representation) but most important of all, the ability to expropriate land (with paltry compensation) that sets modern Chinese industrialisation apart from any other model. Less publicised than the virtuous cycle of cheap labour and free trade, that induced outsourcing and further foreign direct investment, has been the technology and know-how contributed by the Taiwanese and Chinese returnees. They and others have allowed the country to deepen its capital goods producing industries at a time when capital formation has almost matched consumer spending. At the same time, generous State bank loans to troubled state owned enterprises (SOEs) have lubricated their ability to cope with the changed environment and over-manning.

Our most recent tour, which included the back-blocks of China, highlighted the sophistication of

infrastructure in and around the provincial cities and the fact that Beijing's policy of decentralisation is going according to plan and helping to spread the nation's growing prosperity. There is a pervasive sense of optimism among both the local companies and multi-nationals that we met, but **pricing pressure remains intense**. Profitability, which was seldom mentioned during our 2003 grand tour, is causing there to be talk of **the need for "industry consolidation"**. Apart from the inability to pass on rising raw material costs, **labour shortages are also a growing concern**. Wages are generally rising by close to 10% pa for assembly type work, while supervisory and professional management are able to extract increases of around 30%. Job hopping by skilled workers is fast becoming a national past time ¹.

This pressure on profitability will, in due course, impinge negatively on investment (which anyway is abnormally high) and ultimately retard economic growth. However, we believe this linear causality underplays the likelihood that foreign investment flows will remain robust, driven by the potential of the vast domestic market and the competitive imperative to outsource. Even if labour costs rise in aggregate by say, 15% pa, the relative gap afforded by doing business in China, and the growing sophistication of its products will provide support for longer than some may believe. Yes, there will be more outsourcing to Vietnam, Indonesia and so on, but we believe there is sufficient momentum to ensure that activity continues to rise, albeit at a slightly slower pace (5-7% versus the 8-9% of recent years). **Significantly, the resources of the nation will now switch to consumption and in our view begin a consumption binge**. Wages are far outstripping inflation and skilled people will be able to afford property and consumables which were formerly confined to dreams.

¹ A recent study by Credit Suisse corroborates the sharp rise of urban incomes with their 2005 survey of 2,700 people in eight major Chinese cities, suggesting that the mean after-tax household disposable income is RMB5,081 (\$US633) per month, 13% higher than in their 2004 survey. Our anecdotal evidence suggests this figure may be conservative.

Property is identified by most respondents (to the CS survey) as their most desirable purchase and on account of income rises and relatively cheap land, it is proving highly affordable. At the one development we visited in Chengdu, Vanke, is developing 700,000 m² to provide 5,000 apartments. The first stage sold for about RMB3,200 per m². As in Hong Kong, this is the price for unfitted gross space and once subcontractors have "finished" the apartment to the buyer's specification, the cost is around RMB4,500 m². So a pleasant flat of 120m² (equivalent to 105 m² net usable) in a garden setting, costs around \$US67,500! With the CS survey revealing mean disposable urban household incomes in 2005, of around \$US7,600 pa, it is perhaps not surprising that across the nation, **30% of new apartments are paid for in cash**. Interestingly, there is a tendency for mortgages to be retired early and even with the current housing boom, (housing sales up 20% year on year) the outstanding stock of mortgages is barely growing with the government banning banks from penalising early repayment.

The second-hand market in housing is still very undeveloped on account of slow title registration in cities other than Shanghai, and the fact that those with capital are said to prefer to keep their properties as investments on the basis of rental returns of about 5-6%, and the prospective bonus of capital appreciation. To further encourage decentralisation, there is a growing tendency by the government to ration land in the coastal areas. It is encouraging the public auction of larger blocks (to favour the stronger players) and is limiting developers' use of borrowed funds as well as stipulating the degree to which developers can depend on pre-sale finance from potential buyers. With most developers seemingly indifferent to the activities of their competitors in this **helter-skelter building of new accommodation**, these regulations may be insufficient.

Apart from housing, we believe foreign investors may also underestimate the take-up of automobiles. The CS survey hints at this with respondents in Shenzhen and Beijing revealing

about 26% of households own a car versus the survey average of 15%. Our visit to Geely Automobile's assembly complex in Ningbo reminded us of the speed of adaptation by local start-ups. Selling cars for as little as \$US5,000, Geely sold 133,000 vehicles in 2005, and is planning to sell 180,000 this year with the launch of seven new models. It may, however, be preferable to participate in this boom with a well established company such as Dongfeng (formerly Second Auto Works) with its 50% interest in foreign-managed associates producing Hondas, Nissans, Peugeots, Cummins diesel engines and its own trucks. One cannot deny the exuberance and commitment of the local entrepreneurs when seeing their facilities and knowing their short histories.

Apart from the opportunities in the local companies vying to meet this tidal wave of domestic demand, the alternative is to participate via the diluted interests of foreign companies. The Fund is represented here with the likes of Carrefour with its 78 hypermarkets and Pernod Ricard, with the best selling scotch, Chivas Regal. In time, the scale of the market will be meaningful to a host of others, above all strong brands, in this imitation prone market!

The spill over from greater domestic demand within China will be particularly beneficial to South East Asia and continue to suck in sophisticated exports from the rest of the world. This will begin to remove the trade imbalances and the much discussed "under-consumption" of the region versus the rest of the world.

We cannot see how the above can be detrimental to Japan and Korea which remain important areas of investment for the Fund. Both markets have done well but from low bases and the return of pricing power will, we believe, produce earnings surprises. Furthermore, in the case of Japan, the second phase of this primary bull market will be carried by deteriorating bond prices as interest rates rise and as local institutions need to shed bonds to rebalance their depleted holdings of equities. These are presently at historically low levels (28%) having peaked at 41% in 1979.

CONCLUSION

Even though interest rates are climbing worldwide, there is little evidence that this is sating investors' thirst for equities, or inducing a higher risk premium in emerging markets. The labour cost arbitrage, which has been an important contributor to western companies having their highest levels of profitability ever (as a percent of GNP in aggregate), is still in place. However, valuations barely acknowledge these above-trend profits. Complacency reigns at a time when deteriorating global liquidity is being absorbed by strong economic growth. Perhaps the speeding up of consumption growth in Asia is seen by investors as an important piece of the jigsaw that rebalances global economic activity. From a micro-perspective, we are identifying companies we are comfortable to own at prevailing prices partly because of the relative undervaluation of quality growth companies that we have alluded to in the past.



China



NOTES

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology Index

(Note. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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